Raising the bar:

ENHANCED ACCOUNTABILITY

to the people of Ontario

Ontario Financial Review Commission

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ONTARIO FINANCIAL REVIEW COMMISSION

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Executive summary

This report sets out the means by which the Ontario Financial Review Commission believes the public sector in Ontario can improve accountability and service to the people of the province.

The Commission believes that the conclusions and recommendations outlined in this report will aid the public sector in meeting the expectations of people in Ontario for improved service in a tighter fiscal environment. They will help give organizations in the transfer sectors, such as hospitals and universities, the tools they need to deal with very serious challenges ahead. They will also improve the management and financial reporting of government assets such as highways and buildings. Investing in stronger accountability in the important areas of transfer payments and capital assets will advance the long-term goals of providing better public services at lower cost and giving people in Ontario a clearer understanding of how their tax dollars contribute to public well-being.

The Commission's mandate

Building on the work of an earlier Ontario Financial Review Commission, which sat in 1995, the mandate of the current Commission comprised three major tasks. The Commission was to report to the Minister of Finance on:

- options for improving the financial management, decision-making and reporting practices of the government's key transfer partners;
- options for reporting the government's investment in tangible capital assets; and
- the government's response to the recommendations made by the previous Commission.

A summary of the Commission's conclusions in each of these areas follows.

I. Accountability in the transfer community

Rather than attempting to provide detailed prescriptions to improve transfer-partner practices, the Commission focused on the key elements that must be in place to help ensure that transfer-partner organizations are well run, responsive and responsible. It identified these in some detail and set out a checklist to assist organizations and their stakeholders in determining whether the elements are in place. Together, these elements comprise what the Commission defines as an accountability framework for transfer-partner organizations.

The Commission also concluded that the large organizations in the major sectors it reviewed would benefit from the creation of independent "performance enhancement offices." A performance enhancement office in each major sector would evaluate the performance of the sector and the organizations within it, identify and celebrate best practices, assist in integrating initiatives within and across sectors, and support remediation where the office's evaluation suggested problems might exist.

Finally, the Commission believes that legislation is the most effective means to implement these mechanisms.

The Commission makes the following recommendations, which are described in greater detail in Chapter I:

Recommendation I.1. That the government require the transfer payment community to adopt a framework covering the basic elements of accountability. These basic elements comprise appropriate legal status, ministerial responsibility, governance, mandate and direction, management, relationship with the responsible ministry and other funders, performance measurement, financial reporting, and communication and transparency.

Recommendation I.2. That the government move to establish independent performance enhancement offices for the transfer community, with particular attention to the health-care, post-secondary education and social-services sectors, following the principles of objectivity, independence and transparency.

Recommendation I.3. That the government introduce legislation incorporating an accountability framework that includes both the basic elements of accountability and provision for sector-wide independent performance enhancement offices.

II. Managing tangible capital assets

In examining the options for government financial reporting of tangible capital assets, the Commission concluded that providing more information about the inventory of assets owned, their condition, and plans for capital renewal, replacement and disposal is essential. Better reporting will give the public and government a better picture of the resources used to provide public services, and should help managers within government make better decisions about how to invest in and maintain tangible capital assets. Moreover, the Commission believes that the greatest benefits will be achieved by creating a more comprehensive capital management process based on best practices in planning, budgeting for, acquiring, maintaining and reporting on tangible capital assets.

The Commission makes the following recommendations, which are described in greater detail in Chapter II:

Recommendation II.1. That the government follow demonstrated best practices and principles in its internal budgeting for capital expenditures and maintenance of capital assets in order to maximize the benefits of capital investment and ensure best use of public resources. These include coordination of plans through a central agency; life-cycle costing; estimates of ongoing costs of projects; mechanisms to identify and address maintenance backlogs; alignment of capital budgeting with policy goals and with optimal resource allocation; and consideration of private-sector involvement where appropriate.

Recommendation II.2. That the government begin immediately to develop the information needed to show the cost and depreciation of existing tangible capital assets and move to adopt the existing Public Sector Accounting Board (PSAB) standards for reporting tangible capital assets as soon as possible.

Recommendation II.3. That the government adopt updated PSAB standards in the area of financial reporting for tangible capital assets if, as and when they are formalized.

Recommendation II.4. That the government move immediately to develop the information that is needed to provide a meaningful evaluation of deferred maintenance needs for tangible capital assets, in line with current PSAB suggestions, and make such information public in all relevant documents, including but not limited to the provincial budget, and use it for internal management purposes.

Recommendation II.5. That as understanding of the issues in the area of deferred maintenance evolves and best practices emerge, the government incorporate these into its management practices and report publicly on these initiatives; and that as PSAB develops standards in the area of deferred maintenance, the government adopt these in its reporting to the taxpayers of Ontario.

III. Follow-up to the report of the 1995 Commission

In evaluating the government's response to the report of the 1995 Commission, the current Commission found that a very large proportion of the recommendations had been adopted or were in the process of being adopted. Specifically:

- budget forecasts are now deliberately cautious and contain contingency reserves, which, to the extent they were not needed, have been used to reduce the annual deficit or pay down provincial debt;
- the government eliminated the annual deficit in 1999-2000 and has set out a plan for reducing debt;
- business planning and performance measurement are now widely in use among ministries; and
- the government has adopted the accounting policies and practices recommended by the Public Sector Accounting Board (PSAB) for the Budget and the quarterly *Ontario Finances* report, and adoption of one financial system is under way.

The Commission repeats three recommendations that have not yet been adopted (recommendations III.1, III.2 and III.3, below). It repeats, with changes, another four (recommendations III.4, III.5, III.6 and III.7, below).

Recommendation III.1. That the government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning;
- explain the government's targets for effective and efficient performance and how it will measure progress towards them;
- report on progress towards established goals and explain the reasons for changes from its previous plan; and
- outline the revenue, expenditures and economic projections for the upcoming year and the following two years.

Recommendation III.2: That the requirement for business plans, at the government, ministry, and agency level, be legislated.

Recommendation III.3: That the government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

Recommendation III.4: That the government's Budget be completed, and its business plan in place, before the start of the fiscal year; that as much relevant information on allocations as possible be made available to ministries and transfer partners before the start of the fiscal year; and that the Budget (including business plan) be tabled in the Legislature as early as is practicable.

Recommendation III.5: That the government and participants in the major transfer sectors develop better systems for sharing information about socio-economic trends that are likely to have a significant longer-term impact on the Province's ability to provide important services, and work towards integrated measures to deal with those; and that the Budget and other public documents outline the results of these initiatives.

Recommendation III.6: That the government adopt PSAB standards for the Estimates and all relevant sections of the Public Accounts.

Recommendation III.7: That the quarterly *Ontario Finances* provide, in addition to the current update on the fiscal situation against the Budget plan, actual results for the current year-to-date, compared to year-to-date actual figures for the prior year.

Conclusion

Both existing pressures and the considerable challenges that lie ahead for the public sector call for carefully thought-out initiatives aimed at improving service quality and accountability. The Commission calls upon the Minister of Finance, his Cabinet colleagues and senior officials within government and the transfer community to work together towards adopting the recommendations set out in this report. The Commission believes that these recommendations will greatly advance the important goal of improving the quality of life for people in Ontario, while providing clearer information about how that goal is defined and what resources are used to reach it.

Introduction

In its current mandate the Ontario Financial Review Commission was asked by the Minister of Finance to provide guidance in areas that may sound, to the outside reader, remote and even abstract: the activities and accountability of "key transfer partners," and the province's reporting on its "investment in tangible capital assets." The Commission, made up of five members of the accounting profession and business community, was also asked to judge the government's response to recommendations made by an earlier Ontario Financial Review Commission in 1995. (Complete details of the mandate appear as Appendix A to this report; biographies of the Commissioners, as Appendix B.)

While the terms used in setting out the first two tasks of the Commission may not be familiar to many people in Ontario, virtually everyone experiences the reality behind them every day. Transfer partner organizations are the school boards that operate the schools where the children of Ontario learn how to read and write; they are the universities and colleges that prepare young adults for the work force, and upgrade the skills of those already working; they are the hospitals that treat us when we are injured or ill; they are the social agencies that help families care in their own home for members who are disabled or developmentally delayed.

Tangible capital assets are no less central in the delivery of public services. The assets owned directly by the provincial government include the highways, bridges and tunnels that carry goods to the marketplace and workers to their jobs; the computers and telephone systems that allow us to access government services more simply and quickly; and the buildings in which government employees work. In what is called the broader public sector – the services provided by the transfer partners discussed in the previous paragraph – tangible capital assets include hospital buildings, high-tech medical equipment, university and college lecture halls, laboratories, school buildings and a myriad of other facilities that we see, and use, every day.

The taxpayers of Ontario provide funding in the billions of dollars to transfer partners and for tangible capital assets every year. But the paradox the Commission found is that despite their everyday presence in our lives, our view of these activities, at least from a financial management perspective, is limited. We know how much we pay in taxes, and we use the services provided through transfer-partner organizations and physical assets. But do we know how one relates to the other? Do we have a sense of how efficiently the province and its transfer partners, together comprising that huge sprawling entity called the public sector, run their operations? Do we know whether the hospital half-a-mile away is organizing its equipment and staff as effectively as its counterpart across town? Are we satisfied that the local school is teaching our children to the same standard

as similar schools elsewhere in the city? Does a son or daughter about to graduate from high school know the aims and objectives of the province's universities, and how well each might prepare them for their chosen occupation? Are we confident that the health-care system will be able to deal with the medical needs of a rapidly ageing population, and our colleges and universities handle historically high levels of usage?

Among transfer-payment organizations, there are several mechanisms in place to help ensure that the money they receive is properly accounted for. There are arrangements of various types between organizations and the ministries that fund them that set out expectations and provide for consequences if expectations are not met. There is a widespread recognition that it is essential for organizations to incorporate certain elements and structures, such as strong governance, an organizational mission that is widely explained and understood, and benchmarks for performance.

What the Commission found lacking, however, was a framework that brought all of these elements together, that carefully articulated how to meet each requirement, and that spelled out the linkages among all the parties involved – as providers, funders and users – in the delivery of public services. Moreover, those elements that are currently in place are not legislated. The Commission believes that legislation is required to establish better accountability. Finally, the Commission found that the complex nature of the largest transfer sectors makes it difficult to measure the performance of the sector as a whole, to compare the performance of organizations within each sector, and to see, understand and benefit from linkages between and among sectors.

The province's investment in tangible capital assets suffers from a similar lack of clarity, although in this case it is because of a legacy of public-sector accounting practices. Those practices dictate a focus only on the year an asset is acquired – even though the asset might be in service for decades. Once acquired, assets seem to disappear from the province's books; their condition is not reported; their unmet upkeep needs are not discussed. Increasingly, governments are recognizing that financial reporting practices have an impact on behaviour, and that practices once widely accepted in the public sector need to be updated. Without those changes, taxpayers are left in the dark as to what assets the province owns, their condition, and what plans, if any, are being drawn up to repair, renew and replace them.

Current pressures, future challenges

When the Ontario Financial Review Commission sat previously, in 1995, it recognized that government faced both an immediate need to rein in spending and debt, and a longer-term requirement to deal with demographic factors that could eventually put a severe strain on the province's public services.

Five years later, the province's financial situation is far less uncertain. The annual deficit was eliminated in the 1999-00 fiscal year, and the government has set out a plan to reduce debt. While economic growth helped to bring about this change, so did efforts to reduce and redirect spending. The impact, for transfer partners, has been to change the way they are funded by the province, and in some cases to reduce the proportion of the funding the province provides to them. Transfer partner organizations, as well as government ministries, have had both to find alternatives to previous funding arrangements – by tapping new sources of revenue, for example – and to develop more efficient ways of delivering their services. Many organizations within the public sector continue to deal with this evolution.

At the same time, the looming demographic challenges identified by the 1995 Commission are now half a decade closer. In the next 10 to 20 years, the ageing of the huge baby-boom cohort will remove hundreds of professors and teachers from classrooms; other factors, such as the increased need for life-long learning, will require fundamental change in how higher education is delivered. The arrival of the "double cohort," a one-time bulge created by eliminating the final year of high school, will further exacerbate demands on the education sector.

As they grow older, the baby-boom retirees will put increasing strains on the health-care and social-services network, at a time when many physicians will themselves be giving up their practices. Social changes already mean that fewer old people are cared for within the family. Smaller families, greater mobility and broader participation by both spouses in the work force will accelerate demand for government-supported services to deal with the housing and other needs of an elderly population. By both government estimates and those of health-care umbrella organizations, the ageing of this large cohort could require major increases in the government's spending on hospitals and other health services.

The Commission believes that the time to start dealing with these challenges is now. Organizations and sectors must focus on what their objectives are, both in the short and longer term, and how best to achieve them, and on ways of continuously evaluating and improving their performance within their budgets. The Commission believes that this orientation will help transfer partners both deal with current pressures and prepare them for the challenges ahead. In its deliberations, the Commission tried to identify the structures, frameworks and principles that will best support them in these efforts.

Building on a strong foundation

The third task of the current Commission's mandate – to report on the government's response to the recommendations of the 1995 Commission – was an excellent starting point for the Commission's activities in 2000. The review served both as a reminder of the way in which the earlier Commission had hoped to shift the culture of government, towards results instead of process, and as evidence that the transition is well under way.

In addition to the improved fiscal picture outlined above, the Commission found that by adopting the recommendations of the 1995 Commission the provincial government has moved towards a more efficient model of planning and delivering services and managing its finances. Ministry business plans that include performance measures and evaluation of previous activities are now widely produced; government financial reporting follows sector standards as recommended by the Public Sector Accounting Board; a plan is under way to provide the province with a unified financial management system; and there is more prudence and transparency in the Budget and other financial documents.

The scope of the mandate in 1995 was limited to the operations of the Ontario public service itself – that is, ministries and their agencies. It did not extend to the transfer partners, whose transfer payments account for two-thirds of the total provincial budget. The mandate of the 1995 Commission in the area of accounting and financial reporting did not deal in detail with tangible capital assets, where standards for government entities have been evolving for some time. Together, payments to transfer partners and direct spending on tangible capital assets amounted to almost $40 billion in the fiscal year that ended March 31, 2000.

Natural and necessary extension

With so much at stake, both financially and in terms of the impact on the lives of people in Ontario, focusing on these areas as an extension of the work of the earlier Commission was a natural and necessary step in considering how to enhance the accountability required of those who spend provincial tax dollars. For its review of the transfer-partner sectors, which the Commission calls collectively in this report the transfer community, the Commission took as its starting point the value of proper business planning and performance evaluation, which were keystones of the 1995 report. However, in meeting with both transfer-community organizations and the relevant ministries and carrying out other research, the Commission quickly came to recognize that the size and complexity of the transfer partner sectors and the diversity of the organizations within them created unique challenges. This was particularly the case because the time frame for completing its mandate required that the Commission set out high-level recommendations applicable to all sectors. The Commission responded by laying out a conceptual framework that helps to explain the needs of the various sectors and the particular issues that may arise in applying its recommendations.

In approaching financial reporting for capital assets, the current Commission held a view very similar to that of the earlier Commission: for Canadian governments, the guidance provided by the Public Sector Accounting Board is most likely to result in policies that are useful and relevant in the Canadian public-sector context, and that will lead to comparability across governments and within a single government over time. In developing its specific recommendations, however, the Commission has also acknowledged that managing the financial aspects of tangible capital assets is highly

complex, and that new practices and principles are constantly emerging, some of which may prove extremely valuable to the province as they are further researched and refined. The Commission's recommendations therefore encourage the province to remain open to assessing and adopting best practices, especially in areas such as project planning where frameworks are not dependent on accounting practices alone.

The recommendations

Where the report of the previous Commission set out 55 recommendations, many of them highly specific to matters that the Commission was asked to review, the current Commission has made 15. The Commission believes, however, that the impact of its recommendations, if put into place quickly and effectively, will be as great as that of the previous report. Many of the recommendations of the earlier report were highly detailed, because they were laying out a framework for the operation of government that was, at the time, innovative. As a result of their adoption, the language of the public sector has changed, and ideas that five years ago required a great deal of explanation – business planning, organizational mission, benchmarks, performance evaluation – are now widely understood and accepted.

In essence, in looking at the transfer community, the Commission has concluded that the province and its transfer-payment partners must build on the founding principle that they are accountable to the people of Ontario on two levels: as taxpayers who fund the services they provide, and as the clients who rely on those services for their personal health, well-being and security. Meeting responsibilities on both levels means providing the best possible service at a cost that the taxpayer is willing to accept, and striving always to improve the value of services while containing costs.

The Commission believes that this is best achieved by ensuring transfer partners adhere to what it calls the basic building blocks of accountability. These include, for each transfer partner:

- Proper legal status, strong governance, well-articulated mission and vision, and effective management;
- Well-defined relationships with all stakeholders, including funders, service users, staff and ministry;
- Commitment to proper business planning, performance evaluation and continuous improvement; and
- A culture of openly and actively sharing financial and performance information with all communities that have an interest in the organization.

Moreover, the Commission believes that performance can be enhanced across a sector with the creation of a sector-wide body, part of neither the funding ministry nor the sector itself, that is dedicated to improving performance throughout the sector, encouraging cooperation and synergies within a sector, and recognizing linkages among sectors.

Finally, the Commission has concluded that accountability is best ensured, both within government and in the transfer community, through legislating accountability.

Chapter I of this report sets out the background to these issues and the Commission's recommendations.

In its review of the province's financial reporting of its tangible capital assets, the Commission recognized that reporting practices have a very real impact on decisions, and that current accounting and reporting policies may not be supporting good decision-making. Further, the Commission believes that best financial management practices dictate looking at capital assets not simply from the perspective of how they should be reported, but should encourage the best possible practices throughout the entire cycle of planning and budgeting for, building and maintaining, and renewing, replacing or disposing of assets. For this reason, the Commission recommends:

- That the province should adopt best practices and guiding principles for the entire life cycle of capital assets, based on the experiences and viewpoints of leaders in the Canadian and other public sectors; and

- That it should continue to look to the Public Sector Accounting Board for guidance in the area of financial reporting of tangible capital assets, and should move immediately towards providing more public information on what assets it owns, what condition they are in and what maintenance they need.

The issues involved in tangible capital assets in the public sector are explained in more detail in Chapter II, where the Commission's specific recommendations also appear.

Finally, in Chapter III the Commission returns to the government's response to the 1995 report. As noted above, the Commission has found widespread adoption of most of its recommendations. It believes that there would be considerable value in adopting, as originally written, three outstanding recommendations – that the government each year prepare and publish its own three-year business plan; that the requirement for business planning be legislated; and that the Public Accounts appear sooner after the end of the fiscal year on which they are reporting. It has updated four additional recommendations, to encourage:

- Sharing of all relevant budget information with ministries and the transfer community before the start of the fiscal year, even if the Budget cannot be tabled by that time;

- Better sharing between government and the transfer community of information about long-term trends and developments, with the aim of coordinating efforts to deal with challenges such as the ageing of the population;

- Broader adoption of PSAB accounting standards to encompass all financial documents; and

- Provision of quarterly information comparing current year financial performance with the same period from a year earlier.

The Commission was asked to comment on the costs of putting its advice into practice. In many areas, this will not be significant. For example, the existing commitment to implement one financial management system across government (a recommendation of the 1995 Commission) should make many of the financial reporting recommendations possible at little or no additional cost. There may be expenditures associated with the introduction of historic cost reporting for tangible capital assets, but the experiences of other jurisdictions which have already done this provide lessons in containing costs while creating useful information.

In the area of the transfer community, increased accountability will require an increased commitment – and investment – on the part of the province, particularly where the goal is to evaluate and improve performance across entire sectors. But in the minds of the Commissioners, not making this investment is likely to prove far more costly than the outlay involved. These services are so central to our lives, the issues facing service providers so potentially daunting, and the amounts of money provided to them so large a share of the provincial budget, that there must be effective ways of ensuring they perform to our needs and expectations, and of helping them to excel now and in future. The mechanisms that the Commission recommends in this report are, in its view, the best ways of achieving these vital goals.

I. Accountability in the transfer community

Overview

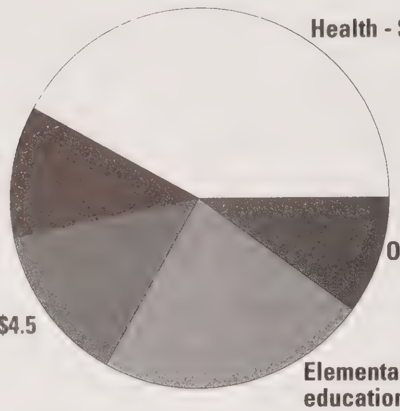
One of the most demanding of the tasks set for the Commission in its Order in Council was to examine and report on "options for improving the financial management, decision-making and reporting practices of the government's key transfer partners." The Order went on to set out the Commission's task in greater detail. It was to review the practices of transfer partners in the areas of: governance and accountability; forecasting, budgeting and accounting; and performance and financial reporting.

The role of transfer partners in providing services to the people of Ontario is crucial. While the Province sets the direction and provides funding for such vital services as health care, education, and social programs, the service itself is in many cases provided by a third party, not by the Province directly. These third parties are referred to throughout this report as "transfer partners," or, in the aggregate, as the "transfer community." Broadly defined, transfer partners include hospitals, homes for the aged and other health-care facilities, school boards, colleges, universities, municipalities and social agencies.

The size of the transfer community, both in financial terms and its prominence in the daily lives of the people of Ontario, is enormous. Of total provincial expenditures of $52.4 billion for operating and capital purposes in the year ended March 31, 2000, roughly $32.9 billion – or two-thirds – went to transfer-partner organizations. This included approximately $13.8 billion to organizations in the health-care sector; $7.6 billion to school boards for elementary and secondary education; $3.3 billion to colleges and universities; and $4.5 billion to social-service organizations.

Ontario Government Payments to Transfer-Partner Organizations in 1999-2000

($ billions)



Note: Transfers for social services include programs administered by municipalities.

It would be difficult to find anyone in the province who does not benefit from services provided by transfer partners. In 1999-2000, there were 2.1 million children and adolescents in Ontario's primary and secondary school system, and a further 419,000 students enrolled in the province's universities and community colleges. In that same year, Ontario's 155 hospitals provided 10.1 million patient-days of care, supplying staff and facilities for the delivery of almost 134,000 babies, for 1.24 million surgical procedures, and for 5.0 million emergency-room visits.

The magnitude and breadth of the services provided by transfer partners make it extremely difficult to develop a general overview of the type that the Commission's task demanded. Additional layers of complexity arise from the complicated relationships that exist among service providers, end-users, other funders, regulators and other stakeholders in the transfer community.

At the same time, however, these very factors make it all the more essential to have in place in the transfer community strong frameworks to support quality service delivery and efficient resource use, just as there must be for government as a whole and its ministries and agencies. There is almost always some room for improvement in the way that large organizations operate, and the complexity of public service delivery suggests that this generality is true for the transfer community.

The stakes are high. The Commission heard and saw evidence that people throughout the transfer community bring an intense dedication to their work, despite the demands they face, and that the organizations in which they work strive hard to find innovative ways to achieve excellence. Without proper frameworks and systems to support the best possible use of public resources, the effort of those working in the transfer

community risks being less effective than it could be; opportunities to use new technologies may be missed, through lack of information and coordination; problems within organizations might be identified only after they have become a danger to public safety and security; and valuable ideas about how best to tackle the huge challenges facing transfer partners in Ontario may not be widely shared and adopted. Strong, coherent frameworks are essential to create a culture throughout the transfer community of continuously striving for excellent performance and accepting accountability for results.

In approaching the specifics of the task it was given, the Commission quickly recognized that in many of the areas outlined, efforts were already under way to create such frameworks. The transfer partners themselves, their umbrella organizations, the ministries that help to fund and set policy for them, central agencies of the province, and the Provincial Auditor have all contributed to those efforts, and their thinking provided the foundation for many of the principles and recommendations set out in this chapter.

The Commission also realized that in the time available to it, the best use of the skills of its members in meeting the Minister's request to examine and report on "governance and accountability, forecasting, budgeting and accounting, and performance and financial reporting" would be to focus on those broad principles which, properly applied, result in best practices in these specific areas. Therefore, while turning its attention at times to individual aspects of that detailed mandate, the Commission has taken the term "accountability" from the Order in Council as the starting point for its high-level observations and its recommendations.

Accountability embodies the principle that those who lead organizations must answer to a variety of parties, particularly funders and clients, for how the organization uses its resources. The Commission believes that strengthened accountability leads to improved performance. It further believes that accountability for transfer-partner organizations is best ensured by setting out a framework comprising guiding principles, operating and legal arrangements, and management systems that support the best possible use of the resources available to those organizations. Proper governance, planning, direction, financial reporting and performance measurement and improvement are essential to ensuring accountability, and are key elements in the accountability framework envisioned by the Commission.

In discussing this framework it is important to set out, as well, that it can flourish only in a positive environment. As one presenter put it: "The focus must be on 'move and improve,' not 'shame and blame.'" The Commission has taken this as its starting point in developing approaches to an accountability framework that support and recognize superior performance and best practices, and that take an even-handed approach to remediation where an organization appears to fall below acceptable standards for the sector as a whole.

The Commission believes that such an approach is in line with the evolution of the role of government in recent years. Governments are moving away from the role of primary service provider that characterized much of the period after the Second World War. Today, public services are provided in much more flexible ways – through transfer partners, alternative service delivery, or the commercial marketplace. In addition, governments are increasingly introducing ways in which the private sector can offer alternatives to services once provided purely by public entities. The role of government is in many instances to manage service delivery or to help ensure the performance of another party in providing a service. These changes have been paralleled by a shift in focus towards better understanding and meeting the needs of users and the marketplace for services that they constitute.

At the same time, accountability recognizes an obligation to provide to all citizens information that will aid their understanding of the activities and results of the public institutions that they support; information developed for internal improvement processes should naturally play a role in meeting this parallel public commitment.

With a stronger focus today on end-user satisfaction, market orientation and broader public accountability, transfer partners must be able to act quickly and appropriately in response to public needs, even while operating in a rapidly changing and often difficult landscape. They must assess and choose among many new technologies, and make decisions that have significant financial implications. They must commit to developing and using information internally and externally as a vital means of setting out and confirming the role they play in society. They must bring a high level of expertise and sophistication to their particular areas, and accept huge responsibilities in developing and sustaining the health, security and well-being of a population in Ontario of more than eleven million people.

The implications for accountability are clear. Transfer partners are very likely to balk at accountability mechanisms that appear to impose additional layers of bureaucracy, diffuse the focus on the end-user of the service, demand unrealistic results, limit or misdirect the flow of information, or threaten draconian remediation. Accountability frameworks must be positive, flexible, and aligned with end-user satisfaction. The Commission has attempted to make those qualities the foundation of its report. And while initial resistance to strengthened accountability may be inevitable, it is the strong hope of the Commission that the transfer community will ultimately welcome accountability mechanisms that support an ongoing quest for excellence in public services.

So that its task might be completed in a reasonable time frame, the Commission placed limits on what it attempted to accomplish in the area of transfer partner accountability. First, the Commission limited its examination to the sectors that by far account for the largest portion of provincial transfer payments: health, primary and secondary education,

universities and colleges, and social services. Second, within those sectors it looked at support for accountability of organizations only, not individuals receiving payments directly. Finally, in its recommendations to the Minister of Finance, the Commission has set out broad directions that it believes can result in workable and cost-effective accountability measures, but has not generally prescribed highly specific solutions.

In the following sections, this chapter provides an overview of the largest sectors and the difficult issues they face, as background to the need to create a framework aimed at strengthening accountability and improving performance. The chapter then defines what the Commission believes to be the key issues in accountability; discusses the basic building blocks of an accountability framework; and proposes independent performance enhancement offices as a mechanism aiming to support continuous performance improvement and greater accountability in the transfer community. It looks at the current state of accountability in the major sectors, and summarizes views expressed by various experts as to how accountability might be strengthened. Finally, the report outlines the advice of the Commission on the issue of whether accountability measures should be legislated, and, if so, what such legislation might include and which entities it might cover.

The Commission notes that while the Provincial Auditor acted as its special advisor, it considers the legislated mandate of the Provincial Auditor in transfer-partner accountability to be beyond the scope of its mandate.

Challenges facing Ontario transfer partners

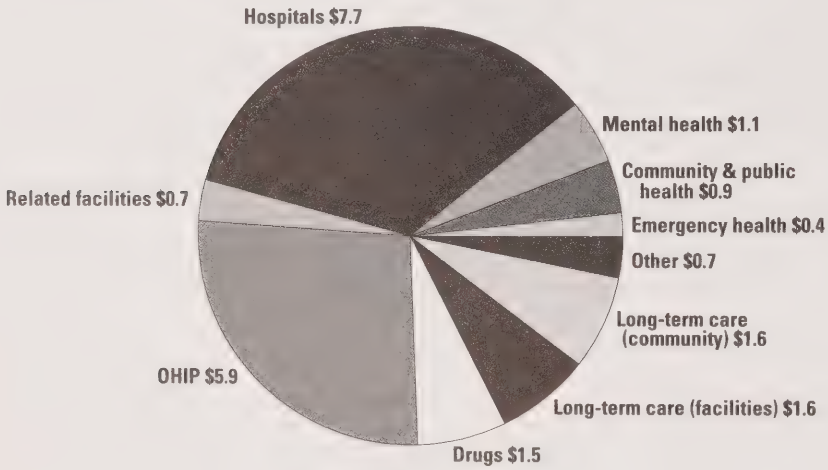
In the course of its deliberations, the Commission heard presentations from ministries and sector participants in the areas of health care, education and social services. The range and depth of the expertise demonstrated by presenters was extremely impressive. The Commission was also struck by a clear commitment by so many in the transfer community and government to provide the highest possible level of service. The following briefly summarizes some of the content of presentations to the Commission.

Hospitals and health care

In the health-care sector, much of the focus on transfer-partner organizations must necessarily fall on hospitals, which account for 35% of the roughly $22-billion budget of the Ministry of Health and Long-Term Care. The amount transferred to hospitals is the largest share of funding, by far, to any group of health-care organizations, and is greater than the total paid directly to physicians through OHIP.

Total Spending on Health Care, 2000-01

($ billions)



In its presentation to the Commission, the Ontario Hospital Association (OHA) noted that the hospital sector is emerging from a difficult period of restructuring and funding shifts. It has taken steps to reduce costs by reducing average duration of in-patient care, carrying out more same-day surgery, and relying more heavily on out-patient services. The sector is exploring ways in which services might be provided more seamlessly and efficiently, through a number of mechanisms ranging from partnerships with other community health-care providers to introduction of internet-based health-care services.

Ontario hospitals lead the country in clinical efficiencies, according to surveys carried out by the Hay health consulting organization. However, while this and other reports have shown that the overall quality of care in Ontario's health system is excellent, there is a large degree of variability among regions and institutions in indicators of quality and accessibility. Moreover, the OHA presented figures showing that usage of hospital beds remains extremely high, which puts at risk hospitals' ability to deal with emergency cases. (The Ministry of Health and Long-Term Care has recently provided additional funding to relieve emergency service problems.)

The health-care sector faces two very difficult challenges. The first is long-standing, but can only increase as the range and delivery of medical and health-services become more complex. It is best summarized by the introduction to the 1996 edition of the *ICES Practice Atlas: Patterns of Health Care in Ontario* (the Institute for Clinical Evaluative Sciences, 1996): "The unfortunate truth is that our health care system is not really a system; rather, it is a collection of disparate parts, each managed separately. Often a 'silo' mentality pervades the system as different components such as physicians, private laboratories, hospitals, home care agencies and public health units work independently, and sometimes at cross purposes." The Commission found this statement highly relevant to its deliberations. It appears vital that government and other organizations in this sector develop a better understanding of the interactions of components and achieve more complete integration of services.

This need will become all the more critical in the years ahead, as health-care providers face their second great challenge: the ageing of the large baby-boom cohort. An ageing population is already a reality – while the population of Ontario increases by 1% a year, the province's over-65 population is growing at twice that rate – but its impact will accelerate as the post-war generation reaches retirement age, which is when individuals' need for health care typically begins to soar. In addition, changing social values and greater family mobility mean that many seniors will require subsidized housing or long-term care that was once provided by families.

The OHA estimates that by 2010, Ontario's hospitals will need to spend roughly 30% more per year in constant dollars to meet the demands imposed by this demographic bulge; and that by 2020, the figure will rise to almost 60%. The Ministry of Health and Long-Term Care estimates that spending on all health-care services could rise from the current 41% (including capital) of total government program spending to 56% by 2015, accounting for more than $40 billion a year in current dollars.

The university and college sector

Like the health-care sector, Ontario universities and colleges face enormous challenges now and in the years ahead.

In its presentation, the Council of Ontario Universities (COU) noted that both federal and provincial funding contributions to universities have declined over the past several years. The combined share of those levels of government has dropped from roughly two-thirds of the budgets of Ontario universities to the current level of 47%, with the Province providing 40% and the federal government 7%. The remainder of the budget comes from tuition (20%) and a combination of other sources (33%), such as industry-funded research, fees for non-credit courses, and donations – sources that have become increasingly necessary to universities to balance their budgets. The universities argue that, despite efforts to operate more efficiently, this changing landscape for funding has resulted in undesirably higher student-to-faculty ratios, too-large class sizes, difficulties in recruiting faculty, and a build-up in deferred building and other facility maintenance (this last point is addressed in Chapter II of this report).

In the coming years, the sector will have to make major adjustments as the result of the interaction of policy changes, social trends and demographic factors. On the policy front, secondary-school reforms that eliminated the final year of high school have created a "double cohort," with two graduating classes expected to add 88,000 students to the university and college system by 2005-06.

At the same time, social trends are placing increased pressures on the university and college system. There is a greater demand for post-secondary education, both among high-school graduates, who are increasingly likely to attend university or college, and those already in the workforce who need to upgrade and update their skills. Both of these trends are expected to grow in future years.

A large expected drop in the number of faculty, as the baby-boom generation of academics begins to retire, is expected to compound the pressures caused by both the one-time influx of double-cohort undergraduates and increasing system usage in general. Universities will need to hire 11,000 professors between now and 2010 to meet the need created by retirements and increased demand and to improve student-to-faculty ratios, according to COU estimates. Colleges will face similar pressures.

Social services

A presentation by the Ministry of Social and Community Services made it clear that of the three major sectors reviewed, organizations in the social service sector provide the widest range of services, as its programs may arise from either a government-led policy direction or from grassroots responses to specific family or community needs. The activities and initiatives of the sector cover a very wide range and are delivered through a number of entities, from municipalities (for broad-based relief programs) to large, professionally staffed organizations (such as local Children's Aid Societies) to small, volunteer-led groups.

Because of the diversity of services in this sector, it is difficult to identify sector-wide pressures that would arise from economic or demographic factors. The Ministry's mandate to provide assistance to unemployed people who have exhausted other supports would clearly be affected by an economic downturn. As with the health sector, the long-term trend towards an ageing population will very likely put pressure on many of the sector's programs. This is being felt already in family-support programs, where parents who once could care for a disabled or developmentally delayed family member at home, with some outside help, are now becoming too old to fill that role.

Implications

As the foregoing indicates, the skills and initiatives of those in the transfer community are being rigorously tested now and will face even greater challenges in the years to come. Demographics, long-term trends and other expected developments will put enormous strains on the health care and education sectors in particular, and are likely to have an impact on many social and community programs as well.

These challenges have major implications for the planning and budgeting practices of transfer partners and the provincial government. In particular, the transfer community expressed a need for better medium- and long-term information from the government about funding. The Commission addresses this need in Chapter III of this report, which deals with the results of the deliberations of the 1995 Commission. Recommendation III.1 calls for the provincial government to present a three-year business plan each year, and Recommendation III.5 suggests a better integrated approach to identifying and dealing with long-term challenges.

Apart from needing more information, in the view of the Commission there is also an urgent need to find ways of promoting greater efficiency among transfer partners while maintaining a strong focus on the services provided to end-users. This is the goal of the Commission's advice and recommendations aimed at strengthening accountability.

But what exactly is involved in strengthening accountability? In the following sections, the Commission sets out its understanding of this process and outlines other concepts used in this report.

Defining the issues

One of the greatest challenges for those providing public services is ensuring quality while containing costs. For the provincial government, this challenge is felt particularly keenly because it must represent the interests of its citizens both as taxpayers, whose main concern is financial accountability, and as public-service consumers, whose main concern is service quality. The equation becomes even more complex when the service is funded by the Province but provided by a transfer partner – a hospital, university or school board – which must juggle the concerns of yet other stakeholders, as well as end-users of the service (and, in many cases, their families).

The Commission recognizes this need for balance. In the transfer community, accountability to the people of Ontario both as taxpayers and as service users must be achieved. In the view of the Commission, this balance is met when an organization strives to provide the highest possible level of service at a cost which those who fund it, including taxpayers, are prepared to pay. This is a principle that government, organizations, service providers, taxpayers and service users should all be willing and able to accept.

Accountability for financial and service performance begins with the governing body of an organization. The major focus of the governing body must always be high-level strategic matters, such as developing a mission and vision for the organization and assisting in drawing up a business plan to support those goals. It must also take a leadership role in ensuring that the organization's performance is measured, using valid quantitative measures, and that results are used to improve performance.

Through its role in selecting and directing the executive of the organization, a governing body must also have an understanding and oversight of day-to-day operations. Often, to move the organization ahead, this involves sometimes difficult questioning of whether the existing and accepted ways of operating are still valid. In addition, with changes in the way that public services are now funded and delivered, governing bodies in many sectors are increasingly required to consider additional sources of funding for the organization, and deal with the attendant need to mediate among the sometimes divergent interests of funders. Finally, the governing body is also responsible for ensuring efficient allocation of resources, tracking financial and service performance, and communicating with stakeholders.

In the view of the Commission, all of the foregoing elements – setting direction, planning, evaluating performance, allocating resources, obtaining funding, and examining, overseeing and reporting on finances and operations – have a potentially huge impact on the overall performance of an organization. This gives the governing body a crucial role in helping the organization achieve optimum performance, and a key role in any accountability framework.

The provincial government has an equally important role in accountability, both through its advocacy on behalf of taxpayers and as steward of the interests of citizens as consumers of public services. It must therefore be involved in ensuring both that financial resources are used appropriately, and that an organization is providing the best possible service it can. In dealing with transfer partners, the provincial government unquestionably has many roles to juggle: determining policy, setting out regulatory frameworks, providing funding, and demanding and supporting accountability. In its deliberations, the Commission has looked at how these roles might overlap and interact and, where appropriate, has considered ways to clarify the various elements.

The Commission recognizes that each major sector it reviewed – health, primary and secondary education, universities and colleges, and social services – is unique, and that indeed, even within a sector, each organization faces highly specific challenges. However, despite this complexity, the Commission has identified general principles that it believes apply to all bodies providing public services, and has looked at various frameworks and systems to support accountability. Drawing from this information, the Commission has put forward both specific recommendations on improving accountability, and more general advice on appropriate structures to support the improvement.

Accountability: the building blocks

Work by Ontario's Management Board Secretariat and Provincial Auditor, as well as in other jurisdictions and at the supranational level, has provided criteria for the effective operation of organizations providing public services. As with government ministries, proper direction setting, business planning, execution of plans, reporting and performance improvement are key elements. Placing these in the context of Ontario transfer partners, the Commission suggests that the following elements must be addressed from the outset, and the questions answered positively, in ensuring accountability at the organizational level:

Legal status

Is the organization properly constituted? Does it have the authority to carry out the tasks required of it? Are there objectives set by government through legislation that the governing body must incorporate into its own objectives? Is there an appropriate legal linkage from the Legislature, which expresses the government's public-policy goals, to the ministry that provides funding or direction, and hence to the organization that delivers the service?

Governance

Are the structure and make-up of the governing body appropriate and effective? Does the governing body reflect the interests of the community served by the organization, while maintaining its focus on the organization as a whole? Are appointed members selected with regard to ability and integrity, and do they act without regard to political bias?

Mandate and direction

Has the governing body defined (or, where set by legislation, properly interpreted) the long-term objectives of the organization, expressed its mission and vision, created a strategy for meeting those objectives, and put in place a formal process to develop sound and forward-looking business plans on an annual basis?

Management

Are there appropriate accountability relationships throughout the organization, starting with performance contracts between the governing body and the organization's executive? Does management provide the governing body with accurate, timely and relevant information on the organization's activities and performance?

Relationships with funders

Are the expectations of funders fully understood and acknowledged? Where there are multiple funders, has the governing body fully integrated all of their expectations? Are there mechanisms in place to ensure expectations will be met? Are there mechanisms in place to provide remedies if expectations are not met?

Relationship with ministry/minister

In addition to any expectations outlined in the previous point, is there an appropriate legal document (memorandum of agreement, contract or licence) setting out the relationship between the organization and the ministry responsible for the sector, including outlining roles and responsibilities, funding conditions, and other aspects of the relationship?[1]

Performance measurement

Does the organization set out what it considers to be the best indicators of how well it is meeting its objectives and those of its key stakeholders? Does it establish targets for self-review aimed at achieving superior performance measure, evaluate and report on progress on a timely basis, outline corrective action when necessary and work towards continuous performance improvement?

Financial reporting

Does the organization report fully, clearly and on a timely basis on how it has used its financial resources? Are its financial results audited by an appropriate body?

Communication and transparency

Is there an established culture of reporting to service users, funders, management and front-line workers on the organization's mission, vision, performance targets, results and plans, and encouraging feedback aimed at improving performance? Are there mechanisms in place to ensure that such reports are objective?

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[1] In the parliamentary system, it is the individual minister who is legislatively accountable for activities of his or her ministry. In practice, organizations would normally regard the ministry as the entity to which they report and are accountable. In this document, the terms are used interchangeably.

At present in Ontario, some of these principles are set out in the Management Board Directive on Transfer Payment Accountability, which is included as Appendix D.

Recommendation I.1. That the government require the transfer payment community to adopt a framework covering the basic elements of accountability. These basic elements comprise appropriate legal status, ministerial responsibility, governance, mandate and direction, management, relationship with the responsible ministry and other funders, performance measurement, financial reporting, and communication and transparency, as discussed in this report.

The Commission believes that accountability would be more effective in Ontario if these principles were legislated for the transfer community, as well as government as a whole. This is addressed explicitly below, under "Role of Accountability Legislation."

The foregoing checklist sets out what the Commission regards as minimum components of a framework for transfer-partner accountability. However, the Commission recognizes that putting in place an effective accountability framework may be more challenging in some sectors than in others. To better understand that challenge, as well as help determine where accountability mechanisms are most important and how they should be funded, the Commission reflected on the impact of various characteristics of public services on accountability. These reflections are summarized in the following material.

Strengthening accountability: a conceptual framework

The Commission was struck by the diversity of objectives, organizational structures and funding arrangements within the transfer community. While attempting to identify common elements that might contribute to strengthened accountability, the Commission wondered whether these differences might make it difficult for government to adopt a completely uniform approach across the entire transfer community.

The Commission's research did not uncover well-defined guidelines as to how the differing characteristics among sectors, services and programs might ease or hinder the application of accountability frameworks. As a result, it developed its own conceptual framework, based on three characteristics of public services: how critical a given service is; its complexity; and the clarity of its objectives.

The conceptual framework supports the conclusions of the Commission – that strengthened accountability is both important and achievable in most of the areas it reviewed – and helps to point out where the greatest implementation challenges will lie.

Critical services

In looking across the wide range of public services offered in any jurisdiction, it becomes clear that some are more critical to the public interest than others. The Commission identified three criteria, set out in order of importance, that it believes aid in determining how critical a public service is:

Universality

Is the service available to any citizen, without qualification?

Support for the individual

Does the service support and protect the health, economic well-being and safety of individuals?

Stewardship

Does the service support such broadly defined goals as promoting economic growth, protecting the environment, preserving the province's history and culture, and so on?

The Commission has taken as a guiding principle that the more critical a public service is, particularly as measured by the first two of the above criteria, the more crucial accountability is, and the more willing government should be to invest in strengthened accountability.

There are three main reasons underlying this belief. The first relates to financial accountability. The most critical public services tend naturally to be the ones funded entirely or in large part by government. Because of their universality, they are also the services that account for the largest part of the government's budget. The second reason relates to the need to ensure the quality of service, because critical services support individual health, safety and economic well-being. Finally, the most critical services are often delivered by third parties, and government is likely to want to invest in ensuring that the public interest is met in the delivery of those services.

Analysis of how critical a service is has helped the Commission to grapple with the issue of the relative importance of strengthened accountability and who should pay for it. But two other aspects, no less important, are the resources that will need to be invested in strengthening accountability, and how difficult implementation will be. Two other aspects of services – their clarity and complexity – helped to provide answers to those questions.

Clarity

The objectives of some public services are fairly explicit, widely understood and congruent with government goals. This is what the Commission means by clarity of objectives. A reasonable person would say that a primary school education, for example, ought to provide every capable pupil with basic skills in reading, writing and mathematics; or that the goal of the health-care system should be to aid every citizen in the province to achieve the longest possible lifespan, with as little illness-related discomfort as possible.

Clarity of objectives is closely tied, in the view of the Commission, to the ability to determine how well a service provider (or sector as a whole) is performing: the more clear and explicit the objectives, the easier it is to measure progress towards those objectives. If objectives are not clear, accountability at a very detailed level will become more difficult and costly to achieve.

Complexity

Several variables underlie the Commission's concept of complexity. A service may be complex because it involves a wide range of service providers; because service providers require lengthy technical and professional training; because service delivery relies on sophisticated technology; because the institutions delivering the service must mediate among the sometimes conflicting interests of numerous parties providing funding and/or services; because the individualized needs of users of the service call for centres of specialization within the sector; and so on.

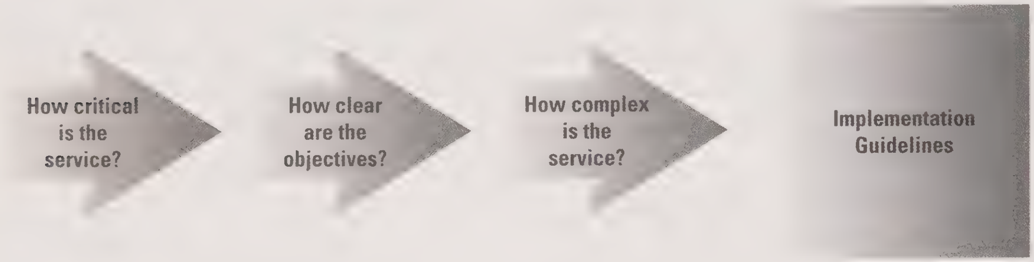
It seems reasonable to assume that accountability and assessment of performance in highly complex areas will require significant investment, because of the need for a high level of expertise in understanding the sector as a whole and the role of various organizations within it. Conversely, however, the Commission believes that strong accountability is particularly crucial in complex sectors because it should drive more efficient use of very costly resources. In that sense, while the absolute investment may appear high, its return – in terms of improved service quality and sector-wide cost savings – should be even greater.

The above discussion should make it clear that clarity and complexity are not equivalent. In the area of health care, for example, services and service delivery are extremely complex, but the objective is relatively clear.

Interaction of criticality, clarity and complexity

Filtering a program or service through a series of questions, such as "How critical is the service?" "Are the objectives well defined and congruent with government goals?" and "Is the service, and its delivery, highly complex?" may yield valuable insight into the challenges in implementing accountability:

Determining the appropriate accountability framework



The conceptual framework suggests that it is easiest to ensure detailed, effective accountability when objectives are clear and there is a relatively low level of complexity to the service. In contrast, strengthened accountability for highly complex activities will require a greater investment; and where objectives are not clear, detailed accountability will be more difficult, because it will be hard to determine missions, performance targets and meaningful standards across the sector.

The Commission determined that for each of the major sectors it examined, the services were generally critical enough to require adherence to the basic building blocks of accountability and to call for investment in sector-wide performance enhancement offices, which are discussed below. The conceptual framework also suggested why strengthened accountability at a very detailed level would be hard to achieve in some sectors or sub-sectors, such as universities, or might require considerable investment in others, such as health care.

Independent Performance Enhancement Offices

The basic building blocks of accountability set out in this chapter derive almost entirely from looking at organizations on an individual basis, not as part of a broad and often complex sector delivering a service. While defining the responsibilities of individual organizations is vital to accountability, particularly in relation to government as a major source of both funding and direction-setting, it would be beneficial from an accountability perspective to understand where a particular organization stands in relation to its peers in a sector. However, any such exercise depends on credibility, which means that stakeholders must see the mechanism as independent and objective.

This notion opens the door to consideration of an independent office – a creature of neither sector participants nor funders – charged with evaluating and seeking to improve performance throughout a sector. The Commission believes strongly that there is a role in each of the major sectors of the transfer community for what it calls independent performance enhancement offices. (Although the Commission did not look at other transfer sectors, such offices might be beneficial to them as well.)

As the Commission sees it, the role of a performance enhancement office is to offer additional support for accountability and performance improvement, through evaluating the performance of participants in a sector and reporting on results. Where any organization appeared to be lagging its sector, the office would also have a role in assessing the reasons and recommending ways of bringing the organization's performance up to its full potential.

The role of the office would go beyond performance evaluation. It would also encourage the sharing of innovative ideas and best practices throughout the sector. By dealing with the component organizations and groups within a sector, it would play a valuable role in integrating functions that are naturally linked within a sector from the end-user's perspective, but that may not currently benefit from a sector-wide view.

Through these activities, the office would promote continuous improvement in service delivery and support the best possible use of public resources, while providing transparent, objective reporting to stakeholders on the success of organizations within the sector in meeting their goals. It would greatly assist the government and transfer community in meeting the objective of providing quality service at an acceptable cost. In short, it would add considerable value for both users of public services and the taxpayers who fund them.

Creating and operating such bodies would involve investment on the part of government. The Commission is convinced that the potential gains from improved service quality and better use of resources would more than outweigh the additional costs. Indeed, the Commission believes that the costs of not taking this initiative are very large, both in terms of financial resources and performance quality. This view is supported by the conclusions of task forces and studies which have looked at individual sectors, and which are more fully discussed below.

There may be a question as to why the ministry or a sector's umbrella organization could not carry out these roles. The Commission believes that the office must be truly objective and have a sector-wide viewpoint. By virtue of the multiple roles they play, neither ministries nor umbrella organizations may be able to achieve the necessary buy-in from the range of stakeholders whose faith in this mechanism is essential to its success.

The office must be in a position to drive the very significant changes that will be required within the major transfer sectors over the next several years. As such, its task is neither simple nor straightforward. In all of its activities, it must remain focused on the impact of performance on the end-user of a service. But it must also be sensitive to the myriad problems and issues facing the sector and the organizations within it. Unless the office has the credibility to ensure cooperation from sector participants, its efforts may be entirely wasted – which would be the case if it were perceived as bureaucratic, uninformed, unrealistic or punitive. It is especially important that the office be, and be seen as, a positive force in improving service delivery.

At the same time, the office must coordinate closely with government in several of its numerous roles involving transfer partners: setting policy and direction, providing funding for the sector and for the office itself, responding to citizen concerns, and dealing with fiscal restraint. Finally, government must be satisfied that there are mechanisms to ensure that the office itself remains focused on its objectives, and uses its resources wisely.

To succeed under these conditions, a performance enhancement office must be set up with considerable forethought, especially as to its impartiality, and run in a responsive, objective way. It must be a dynamic organization, rather than being prescriptive and narrow in focus. Drawing on its own research and analysis, real-world examples of similar bodies, and other aspects of public service delivery, the Commission has identified what it believes to be the success factors for an effective performance enhancement office. These are outlined below, along with a brief explanation as to their importance.

Knowledgeable, objective leadership

The success of the office depends above all on its leadership. Leadership must have demonstrated in-depth knowledge of the sector, which is essential to gaining the attention of sector participants and ensuring their confidence and cooperation. However, because the office cannot be an advocate for a sector, and its ultimate focus must be on the end-user of the service, this precludes its being led by anyone who plays an active role in any organization within the sector. Finding a strong leader who combines expertise with objectivity, while a challenge, is key to ensuring the success of the office.

Independent status

The office must be independent as to both governance and process. While various stakeholders (particularly funders, end-users and service providers) may be represented on its board, no one group should dominate. Board members should have meaningful responsibilities and should be selected based on their demonstrated integrity, sector-wide perspective and knowledge, and freedom from obvious political bias. In its processes, the office should be able to operate independently of the need for approvals from stakeholders. Its legal and organizational structure should allow for sufficient agility to meet the demands of its tasks in the most business-like way.

Focus on end-user

The Commission believes strongly that the evolution of public service delivery demands a focus on the end-user in assessing performance. This might well include such procedures as surveys, questionnaires, and examination of negative and positive comments about the sector. (However, it must be clear that the office is not an ombudsman, and has no mandate to investigate or rectify individual complaints or problems.) In the view of the Commission, focus on the end-user should also extend to including representatives of end-users on the governing body of the performance enhancement office, with the proviso that these representatives meet the criteria outlined above. This parallels the inclusion of members of the general public on the boards of organizations providing public services.

Understanding of, and commitment to, accountability building blocks

The office must understand and support the basic accountability building blocks that the Commission outlines in this report and that it recommends should ultimately be enshrined in accountability legislation, as discussed in "Role of accountability legislation," below. The office should adhere to those elements of accountability itself, and put in place a quality assurance process for self-evaluation.

Strategy for developing sector buy-in

From the outset, the office must have a detailed, well-developed plan demonstrating how it will achieve buy-in among sector participants. This should include, for example, participants' involvement in developing appropriate performance measures, ongoing communication with stakeholders, and demonstrated responsiveness to participants' concerns. Ideally, the office should be able to engage individual sector participants in meaningful ways that support their own professional and occupational development, while also benefiting organizations and the sector as a whole.

Appropriate level of sector-specific technical expertise

Highly complex sectors will require that the office have access to considerable expertise, both to demonstrate an understanding of the sector to its participants, and to aid in developing appropriate performance measurement systems.

Performance measurement expertise

In addition to sector-specific expertise, the office must be able to demonstrate expertise in the development of explicit, measurable targets for performance; appropriate measurement systems; and the ongoing refinement of performance metrics. There is no "one size fits all" solution to performance measurement, especially in complex sectors, and the office must be able to develop measurement systems that are appropriately flexible.

Transparency and commitment to ongoing communication

Because of its dealings with participants throughout a sector, and its advocacy for the end-user of a public service, it is extremely important that the activities and objectives of the office be transparent. Detailed, plain-language communications – with end-users, organizations in a sector, and the appropriate ministry and minister – are key to achieving transparency. The office should be committed to making what might be highly technical data accessible to all groups within society, not just the sector or ministry involved.

Ability to support remediation process

Performance measurement without follow-up is useless. There must be mechanisms in place to improve the performance of those organizations that are underperforming the sector. In particular, where the potential for much better performance has been identified, it is vital that there be an objective review of the reasons, a clear plan for improvement developed by the governing body of the organization, additional resources available if needed to remove roadblocks to performance, thorough follow-up as to the results of the action plan, and the ability for the relevant ministry to take further steps if necessary.

Promoting best practices

While the primary role of the office should be evaluation of the performance of organizations in the sector, it should use the database of information this process creates to identify and celebrate the organizations that are clearly excelling in their role and try to understand, and communicate throughout the sector, the reasons for this. It might also have a role in scanning the external environment – in other Canadian jurisdictions and elsewhere in the world – for innovative practices and solutions. Communications and idea-sharing with stakeholders might be accomplished cost-effectively through an interactive web site, as well as the more traditional mechanisms of newsletters, conferences, journal articles and so on.

Promoting sectoral integration

The office can and should play a valuable role in overcoming the "silo" mentality that currently exists in many sectors, by bringing together participants from across the sector, generating a focus on common issues and problems, developing coordinated approaches to service delivery to reduce costs and improve quality, and communicating the potential impacts that an initiative in one part of a sector is likely to have on others.

Promoting intelligent networks

The offices that represent the major sectors should communicate with one another from time to time to help ensure that initiatives in each major sector coordinate with those in the others. This activity should help to promote better use of resources across all sectors providing public services. In addition, all offices should adhere to a common set of core values that the government supports.

Recommendation I.2. That the government move to establish independent performance enhancement offices for the transfer community, with particular attention to the health-care, post-secondary education and social-services sectors, following the principles of objectivity, independence, interconnectedness and transparency outlined in this report.

Roles and responsibilities

It should be clear that the independent performance enhancement office is not intended to diminish the accountability of either the governing body of an organization or the ministry which funds it. Its role would be to support improved performance across a sector. To clarify how the office would operate, the following table illustrates proposed roles and responsibilities of the three entities (note that "basic accountability" sets out the minimum standard expected, which an organization might well exceed):

Minister/Ministry	
Responsible for:	ensuring that ministry staff and transfer payment recipients meet all accountability requirements (such as those set out in legislation, regulations and the Management Board Secretariat Directive on Transfer Partner Accountability, and recommended in this report); ensuring adherence to legal/contractual requirements; developing a ministry budget, as included in the annual Estimates, to provide funding to transfer partners in line with government priorities; developing policy directions for sector and communicating these to sector organizations and performance enhancement office; supporting superior performance and remedying underperformance; funding performance enhancement office.
Accountable for service quality to:	(for transfer-partner performance): actual and potential service end-users; taxpayers. Basic accountability achieved through review of individual organizations' performance measures as reported in their annual reports and web sites, and sector-wide evaluation carried out by the performance enhancement office. (for own performance): organizations funded; actual and potential service end-users; taxpayers. Basic accountability achieved through performance measures developed internally and reported in ministry business plans, annual reports and web sites.
Accountable for financial matters to:	taxpayers, lenders. Basic accountability achieved through audited financial statements.

Governing body	
Responsible for:	in addition to traditional roles, adherence to basic building blocks of accountability (setting direction, allocating resources, adhering to legal/contractual requirements, measuring and improving performance, taking action to correct underperformance, reporting to funders and other stakeholders, overseeing day-to-day operations and procedures).
Accountable for service quality to:	actual and potential service end-users; responsible ministry. Basic accountability achieved through performance measures developed internally and reported in individual communications, including annual report and web site; through program evaluation and other measures; and through participation in sector-wide evaluation carried out by performance enhancement office.
Accountable for financial matters to:	funding ministry; other providers of funds; service end-users. Basic accountability achieved through business plan and supported by financial statements.
Performance Enhancement Office	
Responsible for:	developing and executing sector-wide performance measurement; identifying and promoting best practices; supporting remediation.
Accountable for service quality to:	organizations in sector, funding ministry, actual and potential service end-users. Basic accountability achieved through reporting on activities, initiatives and results to ministry, organizations, actual and potential service end-users and taxpayers, through annual reports and web site.
Accountable for financial matters to:	funding ministry. Basic accountability achieved through audited financial statements.

The remainder of this chapter deals with application of the principles set out above. It first provides a very general overview of the current state of transfer sector accountability in Ontario, as well as expert views on strengthening accountability. It then discusses how best to apply accountability frameworks to Ontario's transfer community.

Current accountability among transfer partners

The Commission saw and heard, in its deliberations, evidence of continuing evolution towards widespread accountability in government and the transfer community. As might be expected from the conceptual framework which the Commission has developed, accountability appears to be most firmly entrenched in areas where the goals of the service are clear, the service and sector are not highly complex, and the service is widely available. Among transfer partners, the service that most closely fits that profile is elementary education; and in fact, the government has invested in the Education Quality and Accountability Office (EQAO) as a way of ensuring and enhancing performance in that sector (as well as the secondary education sector). This mechanism is in addition to such accountability building-block mechanisms as school board elections, agreements between the Ministry of Education and school boards, and specific funding arrangements by the province.

The example of the EQAO, which is an agency of the province, has been extremely helpful to the Commission in understanding the possible roles of its proposed performance enhancement offices. The Commission believes that the EQAO meets many of the criteria set out in this report for a performance enhancement office, including strong leadership, demonstrated commitment to including sector participants in the process, integrity, and detailed, ongoing communication with key stakeholders. The EQAO makes both general recommendations about the sector it evaluates and specific recommendations on institutions within the sector. Material from the 1998-99 annual report of the EQAO, outlining its mission and programs, appears as Appendix E.

In contrast, the Commission found that adherence to accountability, while growing, appeared to be less formally adopted in the post-secondary education, health-care and social-service sectors. Again, referring to the conceptual framework developed for this report, this is understandable, as discussed in the following material.

Health care

Health care is a particularly complex sector. It involves numerous front-line service providers; a wide range of organizations providing care; a need for increasing investments in technology; an evolution towards large, highly specialized institutions; and the interplay of numerous public-policy, legislative and regulatory frameworks. This level of complexity suggests that accountability frameworks, including the type of performance enhancement office outlined in this report, will require a considerable investment. However, the objective of the health-care system, from a service viewpoint, is relatively clear-cut (a healthy, long-lived populace); with the appropriate level of technical expertise, it should not be overwhelmingly difficult to develop widely accepted measures of how well the sector is meeting that objective. In fact, the hospital sector has begun this initiative with the development of the Hospital Balanced Scorecard and other initiatives. Enhanced accountability is important in health care because it is unquestionably one of the most critical of public services.

Universities and colleges

In the university sector, complexity arises mainly from the interplay of various stakeholders: governing bodies must mediate among the interests of a variety of funders (governments, the private sector, tuition payers, alumni), students, and academic faculty and other staff. An additional level of difficulty arises from the fact that the goals in the university sector are not always explicit. The traditional aim of universities has been to further human knowledge through both teaching and research: a goal that is certainly worthy, but may be difficult to measure. This suggests that implementing even the basic building blocks of accountability will be difficult. In fact, the Commission found that few if any Ontario universities have yet put in place comprehensive frameworks covering governance, mission statements, planning and reporting, as outlined in this report and elsewhere. The Provincial Auditor reached similar conclusions in his 1999 annual report.

Further, the complexity and lack of clear objectives in the university sector are likely to make detailed performance accountability – at, for example, the level of individual courses as opposed to the organization as a whole – both costly and difficult to develop for this sector. However, work done in the sector and described below, in "Views on accountability for the transfer community," suggests very strongly that performance measurement is both possible and valid for universities at the organizational level and for the sector as a whole. The Commission believes that, because of the crucial role universities play in shaping the human capital of the province, it is also vitally important.

Accountability should be easier to achieve in the college sector, because the objectives of colleges tend to be more explicit, and because there is less of the complexity that arises from balancing the interests of a wide variety of funders (funding is provided typically by the Province and tuition payers). The Commission heard that performance expectations have been set out in reasonable detail between the colleges and the responsible Ministry, but it is not clear whether these expectations are as widely accepted and met as they might be.

Social services

Sector-wide accountability is extremely difficult for the social-services sector, because of the wide divergence – in size, objectives and dependency on government funding – of the organizations it encompasses. Within this sector, an accountability office that focuses on the performance of the largest and most well-established organizations needs to be considered. This office might also have a role in trying to identify linkages within a sector that to date has been made up of a large number of groups coping with a very wide range of family and social problems, which are generally seen as unrelated. Better understanding these linkages may allow a greater focus on prevention of social problems, as opposed to their remediation.

Views on accountability for the transfer community

While organizations continue to move towards greater acceptance of accountability frameworks, both government and the sectors themselves recognize that there is still much to be done, both in terms of adopting existing elements of accountability and enhancing performance at the sector-wide level. What follows is a very brief discussion of some of the work and views that the Commission found useful in summarizing how accountability might be strengthened in the major sectors.

Health care

The Ministry of Health and Long-Term Care has focused much of its effort in strengthening organizational accountability in the hospital sector. Earlier this year, a joint task force of the ministry and the Ontario Hospital Association recommended in principle the adoption of a broad range of accountability mechanisms in the area of performance measurement. The recommendations included the involvement of one or more third-party entities in the creation of "report cards" for the hospital sector and health-care sector as a whole.

The Institute for Clinical Evaluative Sciences, which as noted above produces the *ICES Practice Atlas*, showing patterns of hospital service provision across the province, also sees a role for a sector-wide body in health care that would "bring together stakeholders from across the health care system to facilitate the delivery of quality health care." This body, as envisioned by the institute, would work with governing bodies of the various health professions, professional associations, and institutions to implement quality improvement activities; would monitor the diffusion of new technologies; and would recommend appropriate structures and incentives to encourage the "efficient, effective and equitable use of health resources," among other activities.

University sector

A report entitled *University Accountability: A Strengthened Framework*, prepared by the Task Force on University Accountability, which was created by Ontario's Minister of Education and Training in 1991 and chaired by William H. Broadhurst, outlines a framework that stresses the importance of governance and performance measurement. Published in 1993, it sets out detailed parameters for appropriate and effective university governance, many of which have since been widely accepted in principle in the university sector. It also discusses the importance of such elements as the mission statement, proper planning, performance measurement and improvement, transparency, and other components which are set out in this report in "Accountability: the building blocks," above. The report recognizes the importance of objective performance evaluation and outlines a number of possible measures for the university sector. Finally, the report proposes that evaluation might be carried out by an independent, sector-wide body, a model that has been very helpful to this Commission in outlining the role of the performance enhancement office proposed in this report.

"How will I know if there is quality?", a report made public in March of this year, and written by David C. Smith for the Council of Ontario Universities, discusses quality indicators and quality enhancement in universities. Building on the Broadhurst discussion of performance enhancement (which it calls "quality enhancement"), it discusses the role of individual institutions in reporting on their performance and stresses the importance of carefully designed and relevant performance measures. Further, it recommends that, if carried out thoughtfully, the creation of a "new organization or institute would be helpful to . . . conduct analyses of quality in the sector as a whole and in relation to sectors in other jurisdictions."

Social services

The Ministry of Community and Social Services has developed a number of basic accountability requirements for this sector, including service contracts (for most agencies funded directly by the ministry); licensing (for day-care operators, who are now funded by municipalities); and performance-based funding (for example, allowing for greater funding depending on a municipality's success in placing clients of the Ontario Works program in jobs).

The diverse nature of the sector has not lent itself to consideration of a sector-wide mechanism for evaluating and improving performance. As noted above, however, the Commission believes that an independent performance enhancement office might be very useful for the large and professionally staffed organizations within this sector.

The very large number of small, grassroots organizations in this sector suggests that more guidance and time may be needed to create understanding and acceptance of the basic building blocks of accountability. The Commission believes that this process is best managed by the ministry that funds them.

Summary

The expert views outlined above regarding both basic building blocks and the value of sector-wide performance enhancement offices stretches back almost a decade. Various experts in the major sectors of health care, education and social services have long recognized the importance of what this report calls the building blocks of accountability. There is also a clear understanding in the first two of these sectors that a sector-wide body, if properly constituted, can add considerable value to the quality of service offered in the transfer community.

These views provide a credible platform, the Commission believes, for the advice and recommendations set out in this report. Their persistence over time, and evidence presented to the Commission of coming challenges in the transfer community, argues for immediate action. The following section outlines what the Commission regards as the logical next steps in implementing a valid and useful accountability framework throughout the Ontario transfer community and public sector as quickly as possible.

Role of accountability legislation

While the current Management Board Directive on Transfer Payment Accountability and other documents set out useful guidelines and principles for transfer-partner accountability, the Commission believes that enshrining the principles of accountability in legislation would create a powerful impetus for improved accountability.

The scope of such legislation should not be limited to the transfer community. Chapter III of this report notes that an earlier recommendation to legislate accountability frameworks for government as a whole and its ministries and agencies has not yet been adopted. The Commission reiterates this recommendation, and recommends that the scope of the legislation be widened to include the transfer community as well. The government itself has expressed its support for public sector accountability legislation, in the 1997 Budget Speech.

The Commission believes that accountability legislation should include several broad principles. In the context of government, its ministries and government agencies, these include adherence to business planning and performance measurement principles set out in the report of the 1995 Commission. The relevant sections of that report are included as Appendix F of this report.

In the context of transfer partners, the Commission believes accountability frameworks should be similar to those for government and agencies. The broad principles which legislation should enshrine are outlined above, under "Accountability: the building blocks." In addition, the legislation should allow for the possibility of performance enhancement offices, as described in this report, in the major transfer sectors.

A balance will need to be struck between the benefits to be obtained from a stronger accountability framework and the costs of monitoring compliance. In the view of the Commission, while accountability legislation should apply to all organizations receiving transfer payments, it should provide for flexibility in its application to the smaller organizations or to any organization that receives only a small portion of its funding from the Province and has its own accountability framework.

Recommendation I.3. That the government introduce legislation incorporating an accountability framework that includes both the basic elements of accountability and provision for sector-wide independent performance enhancement offices, as outlined in this report.

Conclusion

Working towards excellence in providing public services is a difficult task for Ontario's transfer community, but one to which there is already a high level of demonstrated commitment. The Commission – which has formed its conclusions not as experts in any particular public service, but as strong advocates of accountability – hopes that its contribution is helpful to members of the community.

The Commission's goal has been to provide advice both to government and to the transfer community in dealing with this complex area. The Commission believes that every organization in the transfer community would benefit from adopting the comprehensive building blocks of accountability that this report sets out. Further, the Commission recommends that accountability legislation should apply to the transfer community, as well as to government itself. Finally, in the most important areas of public service – health care, education and social services – the Commission strongly believes that an objective party, the performance enhancement office, can act as a positive agent in creating a culture of quality service delivery.

While effective accountability does require a strong and stringent framework, the Commission recognizes that achieving optimum accountability among a highly diverse group of sectors and organizations also requires flexibility and creativity. From the presentations that the Commission heard, it is confident that the desire, expertise, initiative and openness to innovation needed to achieve those goals do indeed exist within public-sector organizations and government ministries.

II. Managing tangible capital assets in the public sector

Overview

The Commission's current mandate includes reviewing and reporting on "options for reporting the government's investment in tangible capital assets." This chapter sets out the issues involved in this task and reports on the Commission's conclusions.

Tangible capital assets account for a large portion of the resources government controls. Governments increasingly recognize that the way in which they track spending on those long-lived assets can have an impact on the use of public money and the condition of public resources. At present, many governments, including that of Ontario, record spending on a long-term asset as an expense in the year the asset is acquired (for more background on the technical issues in this area, please refer to Appendix G). There is no requirement for government to disclose, during the life of the asset, its condition or maintenance needs.

These reporting practices likely have an effect on government behaviour. There may be a tendency to delay capital projects as long as possible, especially when finances are tight, because of the large impact in one year. There may also be a tendency to spend less on an asset at the outset, to reduce that one-year impact, even if this triggers higher operating and maintenance costs over the life of the asset. Because there is no requirement to disclose maintenance needs that have not been met, assets may deteriorate severely through lack of upkeep once they are in use, shortening their expected service life. This may well trigger a premature need for replacement – which of course sets off the entire uneconomic cycle once again. In summary, with a reporting focus almost solely on the one year in which the money spent acquiring an asset will be recorded, there is less attention paid to developing complete, rational, long-term plans for building and maintaining government assets, or to understanding the importance of a planned and strategic approach to asset creation and management.

The public feels the impact when the decision-making process is skewed by inappropriate reporting, most often through the effect on infrastructure. Infrastructure comprises those large, long-lived assets which provide essential services to the public, such as highways, bridges, and water and sewage treatment systems. One of the key roles of government – and a role that distinguishes government assets from most of those used by private-sector enterprises – is to build and maintain infrastructure. When infrastructure is still in use past its intended lifespan, or has not been properly maintained, or does not benefit from the introduction of new technologies, the quality of service experienced by the public may well decline.

Improved financial reporting will undoubtedly, in the view of the Commission, improve decision-making and the ability of the public to assess government's capital spending and maintenance activities. In the Commission's view, however, moving to a more comprehensive approach to capital requires going beyond providing better information in financial reporting. It requires improving the way government plans for capital projects.

The quality and total cost of long-lived assets, and the services they help to provide, are very much influenced by initial decisions about design, materials and timing, and ongoing decisions about maintenance, repairs, replacement and disposal. Taken together, these choices are reflected in the cost of an asset over its entire life, which has given rise to the term "life-cycle costing" for assets. From the start of the capital budgeting process, through the entire life of an asset, decision-makers must bear in mind the impact of the money being spent on an asset – not just in the current year, but over its entire lifetime. For this reason, discussions about the financial reporting of tangible capital assets in the public sector have grown to encompass questions about how governments and other public-sector organizations can improve and update the entire capital cycle.

It is the belief of the Commission that Ontario would benefit greatly from a move to a fuller and better integrated process for planning and budgeting for, acquiring, maintaining, renewing and reporting on tangible capital assets. Such a system would support proper stewardship, which is a central role of the government. Looking at the life cycle of an asset from budgeting through disposal, benefits would include:

- Ability to make better decisions about the right mix of resources to provide public services, including better understanding of when and how to implement or update technology;
- Ability to calculate the true cost of delivering public services;
- Ability to better allocate scarce resources towards the most urgent capital needs;
- Greater certainty about how and when projects will be completed, and their total costs;
- Better ability to provide transparent information to the public about what assets the government owns, and what condition they are in;
- Stronger incentives to maintain assets in useful condition;
- Better ability to evaluate opportunities for alternative service delivery; and
- More complete information about assets that might be privatized.

At the same time, the Commission recognizes that tangible capital assets in the public sector, unlike those in the private sector, are generally not intended to produce revenue. In the private sector, using long-term debt to finance long-term assets is a normal business practice, and reporting standards reflect this. Part of the debate over reporting of government assets arises from the extent to which this model can apply to government reporting. Certainly a government, like a private enterprise, may borrow to finance tangible capital assets. Present accounting shows taxpayers all the debt that a government has incurred; what it does not show is the portfolio of long-lived assets financed by some or all of that debt. Evolving standards in Canada attempt to strike a balance between providing more information on the government's portfolio of assets and retaining the current focus on its total net debt.

This chapter, in examining the spectrum of issues and concerns relating to tangible capital assets in the public sector, begins with planning and budgeting, which is the start of the capital cycle; then discusses financial reporting; and concludes by looking at the implications of putting off – or deferring – needed maintenance.

While its recommendations and advice do not extend to assets owned by transfer partners, the Commission recognizes that they control much of the public infrastructure in the province and would advise that they move in directions aimed at providing similar benefits in better creating and using capital assets.

Planning for capital assets

While putting in place an appropriate system for the financial reporting of capital assets is extremely important for the public sector, appropriate capital planning and budgeting are even more important. Reporting is, by definition, a look back at what happened during a given time period that allows an assessment of whether funds were used wisely. With better planning, assessments of how funds were spent should generally be more positive. Proper budgeting also allows for clear comparison of intended and actual spending.

Careful planning and budgeting for major capital spending are especially important, because whether it is building a highway, upgrading a computer system, or constructing a new courthouse, a capital project typically:

- Requires large outlays of funds;
- Requires that planners determine the best mix of inputs, including human resources, technology (which is likely to be rapidly evolving) and other capital inputs, to provide a service;
- Requires balancing up-front costs against long-term upkeep needs;
- Has impacts on the public, other ministries, and other programs; and
- Can take several years to complete.

Although the Province of Ontario has made major strides in recent years in providing more information about capital plans in its annual budget, the Commission believes improvement is both possible and essential, especially to internal budgeting processes. Internal management systems should be updated to fully recognize the complex, multi-year nature of capital projects, and to support economically and financially rational decisions.

Like financial reporting standards, standards for better capital budgeting in the public sector are still evolving. Nonetheless, useful ideas about how government might develop better capital plans and budgets are emerging as part of the wider discussion of how to improve the entire capital cycle. The Commission has drawn on these discussions to set out the following best practices and general principles in this area.

Since 1996, the Maxwell School of Citizenship and Public Affairs at Syracuse University, in New York State, has rated the management performance of local and state governments, as well as selected federal agencies, throughout the United States. As part of the research carried out for this report, the Commission identified several common themes and best practices among those governments and agencies that were judged in those studies to have strong capital management processes:

- Long-term plans are developed at the agency level and submitted to a centralized authority, which sets priorities before consideration at the level of elected officials.
- Capital budgeting requests for any expensive and long-lived asset must be accompanied by estimates of ongoing costs that the asset will trigger, as well as the financial costs of not implementing the project.
- Facility audits are used to pinpoint repair and maintenance backlogs and identify the funding needed to avoid major repairs.
- Condition assessments and asset information systems focus on larger and longer-lived assets (for example, replacement value of more than $10 million and lifespan of 10 years or more).
- Agencies must annually submit plans that identify total maintenance requirements, report on progress in completing funded projects, and set priorities for all active maintenance work.

Ontario is already on the way to adopting some of the foregoing best practices – for example, through the new SuperBuild agency, it has created a clearinghouse for proposed capital projects.

General principles for capital budgeting arise from directions suggested by Canadian and U.S. public officials, including David Lindsay, the president and chief executive officer of SuperBuild, and Paul Posner, the U.S. Director of Budget Issues:

- Governments should ensure that the capital budgeting process should be strategic and should align with policy goals.
- Budgeting methodology should not lead to an inappropriate allocation of resources by favouring one type of input over another, but should rather encourage the most economically rational mix of resources.
- Agencies should be encouraged to budget for "stand-alone" stages of larger projects – that is, stages that can be useful on their own before the entire project is completed.

- Consideration should be given to allowing capital allocations to accumulate over more than one budget period, if necessary, rather than lapsing at the end of every fiscal year.

- Contracting out and/or private-sector partnerships should be considered where service cost can be reduced, as long as service quality is maintained or improved.

The foregoing demonstrates that a number of very useful principles are being used or considered by governments in the area of capital budgeting.

Recommendation II.1. That the government follow demonstrated best practices and principles in its internal budgeting for capital expenditures and maintenance of capital assets in order to maximize the benefits of capital investment and ensure best use of public resources. These include coordination of plans through a central agency; life-cycle costing; estimates of ongoing costs of projects; mechanisms to identify and address maintenance backlogs; alignment of capital budgeting with policy goals and with optimal resource allocation; and consideration of private-sector involvement where appropriate.

Financial reporting of tangible capital assets

Current reporting by many governments, including the Province of Ontario, records outlays on tangible capital assets as expenses in the year the money is spent, and does not show the portfolio of assets on the balance sheet. Information on the condition of assets is also absent.

The Commission believes that the current practices hinder the ability of public officials to make rational economic decisions about capital projects, and obscure both the long-term value to the public of creating assets, and the equally long-term maintenance needs that major asset systems trigger. Improved reporting would result in the following major benefits:

- Better management of tangible capital assets;
- Better ability to measure the contribution that these assets make to the well-being of citizens;
- More transparent reporting, allowing users of financial statements to assess the value and condition of assets; and
- Improved ability to compare asset portfolios, both between jurisdictions and within one jurisdiction over time.

The Commission recognizes, however, that reporting of tangible capital assets is a contentious issue in the public sector. Because of the differences in the way the public and private sector use and fund long-lived assets, and the greater variety in the types of assets under government control, there are strongly diverging views among public administrators as to how best to account for publicly held assets. One of the major points at issue is whether the portfolio of tangible capital assets should appear on the balance sheet at all: this reflects a concern that showing assets in this way appears to offset them against debt, which critics believe might encourage inappropriate spending by government on assets and remove the current strong focus on government debt and its reduction.

The Commission focused its immediate attention on the Canadian context and work being done by the Public Sector Accounting Board (PSAB). As its full name suggests, PSAB concerns itself with developing recommendations for appropriate accounting practices in the public sector. It is a creation of the Canadian Institute of Chartered Accountants, the body that deals with many issues in the Canadian accounting profession, including recommending accounting and reporting standards.

Because of PSAB's particular focus on Canadian public-sector accounting and its efforts to gain consensus among as many stakeholders as possible, the Commission believes that following the recommendations of PSAB in this area will result in accounting standards for Ontario that are relevant, consistent and credible. This view accords with the 1995 Commission's recommendation that the Province should generally follow this body's guidance in the area of accounting and financial reporting.

Current status of PSAB standards

In 1997, PSAB presented a model for reporting of tangible capital assets in the public sector in Canada. The model endorsed accounting for tangible capital assets on the "historic cost" basis. This means that an asset, when acquired, appears in a government's financial statements at its actual cost at the time of acquisition and thereafter declines in value as it ages. The decline in value each year is the annual amortization, and is charged against revenues for that year. It is called a "non-cash item" because no actual cash leaves the organization to pay for amortization. It does recognize, however, that the asset is being used up over time.

The model requires that governments prepare four financial statements each year:

- A statement of financial position;
- A statement of revenues and expenditures, or of revenues and expenses;
- A statement of changes in financial position; and
- A statement of tangible capital assets.

As the second statement above suggests, the model gives governments the option of preparing their financial statements on either the "expense" or the "expenditure" basis. Expenditures include spending on both operating and capital items during the reporting period, whereas expenses exclude capital items and include such non-cash items as amortization. If a government chooses the expenditures basis of reporting, it charges the cost of acquiring assets against revenues, and does not show amortization as an operating cost. This is more closely in line with traditional government reporting of tangible assets than the private-sector approach. More information about the asset portfolio does appear, however, in the statement of tangible capital assets.

The standards set out in 1997 are consistent with the views of the 1995 Commission, and those of the current Commission, that no matter what specific practices are followed, there should be disclosure in the financial statements of the original cost of tangible capital assets and their depreciation. In adopting these standards, the government will need to establish whether it uses the expenditure or expense basis of reporting (or whether it follows both and provides a reconciliation between them).

Recommendation II.2. That the government begin immediately to develop information on the inventory of existing tangible capital assets and move to adopt the existing PSAB standards for reporting tangible capital assets as soon as possible.

Continuing evolution of PSAB standards

There was considerable resistance to the 1997 standards on tangible capital asset reporting, and as a result PSAB launched a project to re-examine the model. At this point, no final position has been outlined; however, in July of this year, the board released a Preliminary Views Document for comment by interested parties.

This document outlines a revised model that would move governments further along the path of capitalizing and amortizing capital assets – that is, closer to the full accrual basis such as the private sector uses. It would eliminate the option of reporting on the expenditures basis. Spending on assets would be recorded on the statement of financial position. Annual amortization would appear as an integral part of the financial statements. (A more detailed description of the reporting standards appears in Appendix H.)

The proposed model would more fully integrate reporting for capital assets into all of the financial statements. This represents a considerable change from the 1997 model, which allowed governments to prepare their financial statements without presenting capital assets as long-lived assets except in the statement of tangible capital assets.

Appendix I shows the impact, in a hypothetical situation, of using various accounting treatments for the reporting of a government's tangible capital assets. These examples help to show how the layout and emphasis would shift as a result of a change in reporting standards. This shift would be reflected not just in the financial statements, but also in the annual budget, which outlines the government's plans for the coming year and is prepared on the same basis as the financial statements.

Impact on definition of accumulated surplus or deficit

One major impact of the proposed changes may be to alter the existing definition of the accumulated surplus or deficit. Currently, the accumulated surplus or deficit is widely understood to be the total of all the annual surpluses a government has reported, less the total of all its past annual deficits. As such, an accumulated deficit is often very close to the reported net debt, since debt is the main means by which governments finance their deficits.

Under the proposed system, the accumulated surplus or deficit on a government's financial statements – which is widely used as an indicator of its financial position – would be its net debt *less* its investment in non-financial assets, which are primarily tangible capital assets. This would generally make the accumulated deficit smaller than the net debt, in some cases by a significant amount. Alternatively, where net debt is small and a government's asset portfolio large, it might result in a government showing an accumulated surplus, even though it had outstanding debt. However, by retaining a statement of net debt, the standards would allow users of financial statements to focus on that area of financial management as well.

With its preliminary views document, PSAB is clearly attempting to steer a reasonable course between the viewpoints of those who believe that an accumulated surplus or deficit should reflect the value of tangible capital assets, and those who believe that net debt (before reflecting the value of tangible capital assets) is the best measure of a government's financial position. The Commission believes this is an important balance to maintain.

Recommendation II.3. That government adopt updated PSAB standards in the area of financial reporting for tangible capital assets if, as and when they are formalized.

Deferred maintenance

One of the most important issues the Commission considered in its deliberations was deferred maintenance. Both in the presentations made by representatives of the transfer community, and in researching the state of the public asset base in Canada, the Commission found evidence that with fewer resources at their disposal, governments and other public-sector organizations have put off basic maintenance on long-lived assets to reduce current expenditures. Unfortunately, this can lead to higher maintenance and replacement costs in future – because, as any homeowner knows, deferring upkeep for too long often results in greater costs than if maintenance had been carried out regularly. It may also mean an asset must be replaced instead of repaired. Because current financial reporting does not require disclosure of information about deferred maintenance, governments may well be allowing maintenance needs to grow to critical levels.

While exact figures are not available, there are strong indications that deferred maintenance – defined as the cost of all the upkeep that has been put off for one or more years – now amounts to tens of billions of dollars in Canada. A recent article in *CA Magazine*, a publication of the Canadian Institute of Chartered Accountants, noted that the known estimated deferred maintenance costs relating to Canada's defence, highway and municipal infrastructure were more than $50 billion. A recent survey by the Canadian Association of University Business Officers estimated deferred maintenance costs among Canadian universities at $3.5 billion. These figures do not capture all deferred maintenance needs in the Canadian public sector, as they do not include every sector.

While large figures of this sort are difficult to absorb, evidence of deterioration is all too real for those who work in, or use, assets in the public sector: peeling paint in classrooms, dangerously pitted road surfaces, backed-up storm sewers, decaying bridges, leaking roofs. These conditions represent more than unsightliness or inconvenience. As the following extract from the web site of a U.S. school board indicates, they are also a warning that the real costs of putting things right climb increasingly with each year of deferral, and that lack of upkeep often triggers additional social costs:

> *Something as basic and inexpensive as paint can have serious detrimental effects if it is deferred due to limited staffing or funding. The Anchorage School District currently paints buildings on a ten-year cycle. The standard is seven years but we are unable to meet that target. By waiting ten years, paint further deteriorates, siding is subject to excessive damage from weathering, and more extensive preparation is required before painting. Often times the siding materials fail and require complete replacement . . . .*
>
> *Deferred maintenance also has a proportional effect upon student achievement, as has been proven by the Association of Higher Education Facilities Officers and other groups. As facilities fall into disrepair, test scores go down, [and] vandalism increases . . . . Clean, bright facilities in good repair result in greater student achievement, decreased vandalism, and a pride in ownership that "infects" students, faculty and staff in a very positive manner.*

While the problem is often highly visible, solutions are unfortunately less so. There is significant divergence in views as to how best to measure and report deferred maintenance costs, and almost no public bodies have as yet adopted any means of doing this.

PSAB encourages governments to measure the extent to which maintenance has been deferred on large infrastructure systems and to disclose a summary of this information in a note to their financial statements. The Commission agrees with this approach as a middle ground between the extremes of no disclosure and inclusion of this information in the financial statements themselves.

The Commission believes that disclosure is important, so that the public and other stakeholders understand what financial resources are required for the proper upkeep of tangible capital assets, in present and future years, and the extent to which government has underspent on needed maintenance in the past. However, the exact financial and economic meaning of a figure called "deferred maintenance" is hard to establish: if it is simply the total of all the amounts that should have been spent on maintaining assets in previous years, less what actually was spent, it may seriously understate the amount now required to bring those assets back to acceptable condition. For this reason, including such a figure in the financial statements may not be meaningful. It would, however, be helpful as a starting point for discussion if included in the notes to the financial statements, where additional information explaining the figure could also be provided.

As part of its mandate, a PSAB study group currently looking at infrastructure reporting is also considering the issue of deferred maintenance, drawing in part on studies done by the National Research Council. It should be noted that while deferred maintenance has particular implications for large, complex infrastructure systems, it also results from lack of upkeep to non-infrastructure assets such as buildings and equipment.

Recommendation II.4. That the government move immediately to develop the information that is needed to provide a meaningful evaluation of deferred maintenance needs for tangible capital assets, in line with current PSAB suggestions, and make such information public in all relevant documents, including but not limited to the provincial budget, and use it for internal management purposes.

Recommendation II.5. That as understanding of the issues around managing and reporting on deferred maintenance evolves and best practices emerge, the government incorporate these into its management practices and report publicly on these initiatives; and that as PSAB develops standards in the area of deferred maintenance, the government adopt these in its reporting to the taxpayers of Ontario.

Conclusion

The area of capital asset management in the public sector is extremely challenging on many levels. The role of tangible capital assets, especially infrastructure, is vital to the successful delivery of public services and the health, well-being and safety of citizens. Accordingly, there is a level of complexity to public infrastructure which does not easily allow for the application of standards developed for commercial enterprises for either capital planning or reporting.

At the same time, those standards have created a discipline that focuses the attention of private-sector companies on the way they use – and use up – their capital assets. This discipline extends to understanding that assets are dynamic systems with a life cycle that can be mapped out, and that decisions made today will have an impact on costs throughout the life cycle.

For governments, applying strategic thinking to the life cycle of assets involves several aspects. It means establishing an accurate inventory of the tangible capital assets that the government owns, what condition those assets are in, what must be spent to keep them in good order, and how systems of assets are linked to each other. It further involves applying a rational economic framework to decisions about how and when to design, create, finance, renew, replace, maintain and dispose of assets. This framework must be supported by up-to-date financial reporting that gives users of financial statements more information about the stock and condition of assets, using standards that demonstrate whether decisions have been made on a rational long-term basis. Throughout all of these activities, government behaviour must also align with the discipline of containing or reducing debt.

III. Follow-up to the report of the 1995 Commission

As part of its current mandate, the Commission was asked to evaluate the government's response to the recommendations made by the previous Ontario Financial Review Commission in 1995, and contained in the report entitled *Beyond the numbers: A new financial management and accountability framework for Ontario* (Queen's Printer for Ontario). Many of the members of the current Commission also served on the previous Commission.

The Commission found that most of the earlier recommendations have been incorporated into the financial management practices of the province, or are in the process of being incorporated. It believes that the adoption of these practices has contributed to a shift towards a more focused, efficient and effective public service in the province.

Clearly, the process of change must continue, as reflected in many of the conclusions of this current report. The Commission believes that this evolution will result in further significant gains in performance within Ontario's public sector.

While the government has made considerable progress by eliminating the deficit and beginning to reduce debt, the Commission would caution that demographic and other factors will put enormous demands on public resources in Ontario in the next 10 to 20 years and beyond (as noted in Chapter I, on transfer-community accountability). It is therefore important that the government retain its focus on debt reduction to the extent possible. By reducing debt, future dollars can be directed away from interest costs and into health care, education and other social programs, which will have enormous benefits for the people of Ontario.

The impact of implementation

The adoption of recommendations made by the 1995 Commission has resulted in the following specific improvements:

Fiscal Planning

- The government's 1995 Balanced Budget Plan set out annual deficit targets to 2000-01, and accomplished its goal a year earlier than planned by eliminating the annual deficit in 1999-2000. With the elimination of the annual deficit, the government, as recommended by the 1995 Commission's report, has also outlined a plan for reducing debt.

- Revenue forecasts are now deliberately cautious and, since 1996-97, Ontario's fiscal plan has included a significant reserve (for example, $1 billion in 2000-01) to protect against unforeseen changes in the economic and fiscal outlook. The reserve has been applied each year to reducing the annual deficit.

Business planning

- Ministries are now required to submit internal multi-year business plans for review and approval by Management Board. The internal plans identify the vision, key strategies, policy risks and core businesses of each ministry in the context of the government's overall fiscal plan and operational priorities. Publicly available business plans for each ministry are extracted from the internal plans and have been tabled following the budget for the last two years. They are available on the provincial government web site. In addition, a brochure entitled *Making Progress, Managing Change: A Report to Ontario Taxpayers* lists major planned initiatives.

- The performance measures contained in the business plans are reviewed on an annual basis by a committee of parliamentary assistants who provide Management Board with recommendations to improve and refine performance measurements for the next business planning cycle.

Financial reporting and accounting

- The government has adopted the accounting policies and practices recommended by the Public Sector Accounting Board (PSAB) for the Budget and the quarterly *Ontario Finances* report.

- It has also begun to implement the recommendation to put in place one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.

- The first annual report on government activities, as recommended by the 1995 Commission, was released in September 1996. This report contained economic and financial highlights, a discussion of the Province's revenues, expenditures and debt, a five-year review of selected financial and economic statistics, and condensed financial statements including a report from the Provincial Auditor. Annual reports continue to be released each year, as are the quarterly *Ontario Finances.*

Mandate of the 1995 Ontario Financial Review Commission

In broad terms, the mandate of the previous Commission, when it sat between September and December of 1995, was as follows:

- To come up with a framework for the Ontario government, in forecasting its revenues and planning its spending, that was prudent and realistic;

- To look at ways of improving financial management of the government; and

- To explore how the government could report on its financial position on a more timely basis and more meaningfully.

Within the context of these high-level goals, the Minister of Finance also made specific requests of the Commission:

- To assess whether the government should adopt the same accounting standards in its Budget and Estimates that it was using in its year-end financial statements;

- To review the reporting practices and activities of several Crown agencies; and

- To study the accounting treatment of various provincial activities.

While the previous Commission made a total of 55 recommendations in its report, many of these flowed from the following principles:

- That the Budget, as a central element in the government's planning framework, should be more prudent, by including contingency funds, and more forward-looking, by including information on long-term trends;

- That the government, its ministries, and its agencies, should each year lay out business plans covering a three-year span that include objectives and performance measures, should report each year on their performance against their plans, and should take steps to improve performance when necessary; and

- That financial plans and reports should follow, in general, the accounting principles laid down by the Public Sector Accounting and Auditing Board (now called the Public Sector Accounting Board).

The Commission also made several recommendations on ways in which information could be provided more quickly and effectively to ministries, agencies, the public and other interested parties with the goal of improving planning, reporting and public accountability in Ontario. In line with its mandate, the Commission made specific recommendations concerning Ontario Hydro, the Workers' Compensation Board, and a number of Crown agencies.

Recommendations not implemented

The Commission has reviewed the recommendations which have not been adopted as yet. Appendix J lists each of these recommendations with its current status and the Commission's comments. As explained in the following material, the Commission has decided to repeat three recommendations as originally written. In four other instances, it has repeated the recommendation with changes. (Please note that for the sake of clarity in the material below, the number of any original recommendation is followed by the year 1995 in square brackets.)

Recommendations being repeated as written

Three original recommendations – I.2 [1995], I.18 [1995] and II.4 [1995] – have not been implemented, and the Commission now repeats them as recommendations III.1, III.2 and III.3, respectively.

Recommendation III.1. That the government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning;
- explain the government's targets for effective and efficient performance and how it will measure progress towards them;
- report on progress towards established goals and explain the reasons for changes from its previous plan; and
- outline the revenue, expenditures and economic projections for the upcoming year and the following two years.

(Original recommendation I.2 [1995])

Discussion

The Commission recognizes that the government, in its Budget and elsewhere, is providing more information than was previously the case on longer-term expectations, plans and objectives. The Commission believes this information would be more useful if presented in a business plan, similar to those which ministries now prepare, and supplemented, as necessary, with additional financial and economic information.

As the 1995 Commission noted in its report, "setting goals focuses attention on the outcome that the government wants. Using those goals to set measurable targets focuses management attention on both outcomes and outputs, and how to achieve those most cost-efficiently over the long term."

The current Commission believes that the public, transfer partners and ministries would all benefit from the production by the government of a business plan with a three-year time horizon. This would allow better long-term planning throughout the public sector and provide an opportunity for the government to outline the expected results of longer-term initiatives.

In particular, in the context of its deliberations, the Commission believes that more information on capital spending plans would be useful for both the public and organizations in the broader public sector in Ontario. Chapter II of this report deals in more detail with planning for and reporting on tangible capital assets.

Recommendation III.2: That the requirement for business plans, at the government, ministry, and agency level, be legislated.

(Original recommendation I.18 [1995])

Discussion

The Commission holds the view that an optimal accountability framework includes legislating the requirement for the essential elements, of which business planning is one. Chapter I of this report outlines in more detail possible directions for accountability legislation. While that chapter deals specifically with the accountability of transfer partners, much of the discussion is also relevant to the government and its ministries and agencies.

Recommendation III.3: That the government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

(Original recommendation II.4 [1995])

Discussion

As noted in the report of the 1995 Commission, this recommendation was closely tied to implementation of original recommendation II.2: "that government adopt one financial management and reporting system for all ministries, in place of the incompatible systems now in place." Implementation of that recommendation is in process, and the Commission expects that financial statements could be made available at an earlier date, probably before the Legislature rises at the end of its June sitting, once such a system is in place.

Recommendations being repeated, with changes

A number of recommendations have been changed to reflect information provided to the Commission during its current deliberations, as well as developments since 1995. In the material that follows, the original recommendation appears first, in italics.

Original Recommendation I.3 [1995]: *That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.*

This recommendation has been changed and becomes Recommendation III.4:
Recommendation III.4: That the government's Budget be completed, and its business plan in place, before the start of the fiscal year; that as much relevant information on allocations as possible be made available to ministries and transfer partners before the start of the fiscal year; and that the Budget (including business plan) be tabled in the Legislature as early as is practicable.

Discussion

As the previous Commission noted in its report, providing detailed financial information before the start of the fiscal year "would reduce or eliminate uncertainties for ministries as they enter a new fiscal year, and allow for better management of expenditures. Moving the Budget date to before the start of the fiscal year would allow for a more useful debate of spending authority and more meaningful quarterly reporting. It would also improve public accountability." The Commission adds that this change in timing would also provide similar benefits for transfer partners, by reducing uncertainties about their funding.

There appear to be three obstacles to such a change: the Legislature's calendar, under which sitting after the year-end break does not resume until late March; the requirement that the Estimates (which actually provide spending authority, once passed by the Legislature) be tabled within 12 sitting days of the tabling of the Budget; and the desire to wait for tabling of the federal budget, usually in February, to obtain information about estimated federal transfer payments to the province.

The Commission recognizes that the first two of these matters, the timing of the legislative calendar and the timing of the Estimates, are outside its purview. However, barring the possibility of legislative change, the Commission believes that the concept of budget secrecy would not be compromised by giving ministries and transfer partners the information they need to plan their next year's activities before that year begins. Such information-sharing already takes place to a large extent, but in a piecemeal and incomplete fashion.

The third obstacle outlined above is now less daunting. Because the federal government no longer earmarks transfer payments for specific programs, and the total amounts involved have fallen as a proportion of the provincial budget, the federal budget has less impact on the Province's ability to plan for the coming year. There is no longer as pressing a need to wait until the full details of the federal budget are unveiled before completing the Province's budget and business plan.

Original recommendation I.6 [1995]: *That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.*

This recommendation has been changed and becomes Recommendation III.5:
Recommendation III.5: That the government and participants in the major transfer sectors develop better systems for sharing information about socio-economic trends that are likely to have a significant longer-term impact on the Province's ability to provide important services, and work towards integrated measures to deal with those; and that the Budget and other public documents outline the results of these initiatives.

Discussion

Longer-term planning is more important than ever, because of demographic and other factors in the province. In its review of the major transfer sectors, the Commission found that both transfer-payment organizations and government recognize long-term challenges, particularly in the health-care and education sectors. These are outlined in more detail in Chapter I of this report. The Commission believes that initiatives to deal with these long-term challenges would benefit greatly from the collaborative effort of the transfer community, government and other concerned parties. Because the impact of measures taken in one area of public service will very likely be felt in other areas, solutions must involve consideration of impacts throughout the public sector and must integrate the best use of all resources. The Commission believes it is important to create a long-term planning process that integrates outlooks and needs in all sectors and relies on information being shared more fully between the government and the transfer community. This is a role in which the proposed performance enhancement offices might greatly assist.

Original recommendation II.1 [1995]: *That government adopt PSAB standards for the Budget, related spending authority and updates on the fiscal situation.*

This recommendation has been changed and becomes Recommendation III.6:
Recommendation III.6: That government adopt PSAB standards for the Estimates and all relevant sections of the Public Accounts.

Discussion

This recommendation underlines the importance of consistent presentation of financial information. The government has adopted this recommendation for the Budget, the quarterly *Ontario Finances* and the financial statements included in the Public Accounts, but not for spending authority (which is conferred through the Estimates process) or most sections of the Public Accounts.

It is the Commission's understanding that implementation of one financial system, which is currently under way, will make it possible to present all information consistently using the standards set by PSAB. However, changing the presentation of the Estimates would require, in addition, a legislative change.

Original recommendation II.5 [1995]: *That government produce quarterly financial statements, on the PSAB basis, containing for each quarter:*

- *an updated fiscal forecast for the year, compared to the Budget plan for the year; and*
- *actual results for the current year-to-date, compared to year-to-date actual figures for the prior year.*

The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.

This recommendation has been changed and becomes Recommendation III.7:
Recommendation III.7: That the quarterly *Ontario Finances* provide, in addition to the current update on the fiscal situation against the Budget plan, actual results for the current year-to-date, compared to year-to-date actual figures for the prior year.

Discussion

The quarterly *Ontario Finances* report is prepared on a PSAB basis, and provides an updated year-end forecast and estimate of the impact of changes in economic conditions. However, this document does not provide actual year-to-date results or comparisons. Current financial systems make it difficult to prepare such information.

The Commission continues to believe that this information is important and that it should be made publicly available once the Province has completed the adoption of one financial system, a project that is currently under way.

Conclusion

It is extremely gratifying to those commissioners who were members of the 1995 Commission that the recommendations of that group were clearly received so positively by the highest levels of government in Ontario, and have largely been acted on. The Commission believes that acceptance of the recommendations of the 1995 Commission has helped to support a cultural shift within government towards improved financial management. It is hopeful that adoption of the recommendations of the current Commission will continue this improvement.

Listing of Appendices

Appendix A: Order in Council

Ontario
Executive Council
Conseil des ministres

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and concurrence of the Executive Council, orders that:

Sur la recommandation du soussigné, le lieutenant-gouverneur, sur l'avis et avec le consentement du Conseil des ministres, décrète ce qui suit :

Whereas the Government of Ontario considers that the public interest requires a review of the financial management practices of the government and its major transfer partners in order to continuously improve its services and the services that it funds;

NOW THEREFORE,

1. A Commission to be known as the Ontario Financial Review Commission is re-established to examine and report to the Minister of Finance on the following issues:

- Review of plans for implementing outstanding recommendations of the Commission's 1995 Report entitled "Beyond the Numbers: A New Financial Management and Accountability Framework for Ontario".

- Options for reporting the government's investment in tangible capital assets.

- Options for improving the financial management, decision-making and reporting practices of the government's key transfer partners including:

  - governance and accountability practices;
  - forecasting, budgeting and accounting practices;
  - performance and financial reporting practices.

- Any other related matters that may be recommended by the Commission and approved by the Minister of Finance, and any other matters as directed by the Minister of Finance, that will enable Ontario to achieve the overall objective of improving the financial management and public accountability of the government and its major transfer partners.

2. The Commission shall provide an implementation plan including an estimate of cost, time and human requirements for each of its recommendations.

O.C./Décret 2430/99

3. The preliminary report of the Commission shall be delivered to the Minister of Finance by September 15, 2000 and the final report of the Commission shall be delivered by October 20, 2000 unless other dates are determined in consultation between the Minister of Finance and the Commission.

4. The Lieutenant Governor in Council shall appoint one person to be member of and designate such person as Chair of the Commission. The Minister of Finance shall appoint four other persons to be members of the Commission and may appoint such other persons to be members of the Commission as the Minister considers advisable for carrying out the responsibilities of the Commission.

5. The Commission may carry out consultations with interested organizations and individuals to obtain their views and concerns on improving the financial management and public accountability of government, in such manner as the Commission, in consultation with the Minister of Finance, considers appropriate and may undertake studies or commission reports, as the Commission, in consultation with the Minister, considers necessary to the completion of the Commission's work.

6. In the expenditure of funds and the purchase of goods and services, the Commission shall adhere to the Management Board of Cabinet Directives and Guidelines.

7. All government ministries, agencies, boards and commissions shall assist the Commission to the fullest extent.

8. Administrative services to the Commission shall be provided by the Ministry of Finance as the Minister deems necessary.

9. Orders in Council 1631/95 and 1653/95 are revoked effective upon the date of this Order.

Recommended: ______________________ Minister of Finance

Concurred: ______________________ Chair of Cabinet

Approved and Ordered: DEC 23 1999 ______________________ Date

______________________ **Administrator of the Government**

Appendix B: Biographies of Commissioners

CHAIR - Robert E. Lord, FCA, recently retired as Vice-Chairman, Professional Services, of Ernst & Young. He is Chair of the Board of the Canadian Institute of Chartered Accountants and in 1998 chaired the CICA Task Force on Standard Setting. He is also a member of the Board of Governors of CCAF-FCVI. He is Chair of the Board of the YMCA of Greater Toronto and Chair of the Board of Governors of the Lifesaving Society of Canada. He also serves as a Director of several Canadian corporations. He served as a member of the 1995 Ontario Financial Review Commission.

Sonja Ingrid Bata, O.C., L.L.D., is a Director of the Bata Shoe Organization and Vice-Chairman of the Bata Shoe Foundation. Other directorships include Royal Military College, Kingston; Canadian Forces Liaison Council (Ontario Chair); Canadian Naval Memorial Trust (Vice-Chairman); the Atlantic Council of Canada; and Mentor Foundation, Geneva, Switzerland. She served as a member of the 1995 Ontario Financial Review Commission.

Martin Calpin, FCA, has recently retired from Deloitte and Touche where he filled many roles, most recently as National Director of Risk Management and Managing Partner of the National Office. Mr. Calpin has chaired various committees, including the CICA Task Force on AICPA Jenkins Committee Recommendations, and has served a two-year term as Auditing Standards Director of the Canadian Institute of Chartered Accountants. He is the author of the booklet *Understanding Audits and Audit Reports.* He served as a member of the 1995 Ontario Financial Review Commission.

David L. Knight, FCA, until recently a Vice-Chairman of KPMG LLP in Canada, is a consultant and advisor to that firm's global organization, KPMG International. He has chaired or served as a member of various boards, committees or task forces of the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of Ontario, the Queen Elizabeth Hospital (now the Toronto Rehabilitation Institute), the Regional Geriatric Program of Toronto and other public interest and community service organizations. He is Chair of the CICA's Standards Committee and National Secretary-Treasurer and a member of the Board of Directors of the Multiple Sclerosis Society of Canada. He served as a member of the 1995 Ontario Financial Review Commission.

Robert J. Muter, CA, is a partner of PricewaterhouseCoopers LLP. He is leader of the National Accounting and Auditing Services Department and a member of the Audit and Business Assurance Services Executive Committee. He is a member of the Emerging Issues Committee and a former member of the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

SPECIAL ADVISOR - Erik Peters, FCA, Provincial Auditor of Ontario since 1993. He has held senior positions in both the private and the public sector, including: Vice-President Internal Audit of the CBC; Regional Controller for Europe, Africa and the Middle East of Alcan Aluminium; Assistant Auditor General of Canada; and with Price Waterhouse. He was Chair of the Public Sector Accounting Board of the CICA and Canadian Delegate to the Public Sector Committee of the International Federation of Accounting where he is currently a Technical Advisor. He is a member of the CICA's Standards Committee and was chair or member of various committees and task forces of the CICA and ICAO. He acted as special advisor to the 1995 Ontario Financial Review Commission.

Appendix C: Presenters

External

Canadian Comprehensive Auditing Foundation
Jean-Pierre Boisclair, Executive Director

Canadian Institute of Chartered Accountants
Ron Salole, Director
Martha J. Denning, Principal
Public Sector Accounting

Council of Ontario Universities
Ian Clark, President
Ken Snowdon, Vice-President

Education Quality and Accountability Office
Joan Green, Chief Executive Officer

Government of Alberta
James D. Peters, Controller
Office of the Controller

Government of Canada
Jim Libbey, Senior Director
Financial Information Strategy

KPMG LLP
Robert T. Correll, Partner

Ontario Hospital Association
Murray MacKenzie, Chair
David MacKinnon, President and Chief Executive Officer

York Catholic District School Board
John Sabo, Associate Director

William H. Broadhurst
Chair of the 1995 Ontario Financial Review Commission

Government of Ontario

Management Board Secretariat
Carol Layton, Assistant Deputy Minister
David Fulford
Susan Worley

Ministry of Colleges and Universities
Bob Christie, Deputy Minister
Jamie Mackay
Barbara Hauser

Ministry of Community and Social Services
John Fleming, Deputy Minister
Marilyn Renwick
Ellen Wexler

Ministry of Education
Ross Peebles, Assistant Deputy Minister
Drew Nameth

Ministry of Finance
Bob Coke, Assistant Deputy Minister
Integrated Financial Information System Project

Ministry of Health and Long-Term Care
Dan Burns, Deputy Minister
Michelle DiEmanuele
Colin Andersen

SuperBuild Corporation
David Lindsay, President

Note: Titles reflect the individual's position at the time of the presentation.

Appendix D: Management Board Directive on Transfer Payment Accountability

MANAGEMENT BOARD SECRETARIAT
CORPORATE POLICY BRANCH

Ontario

Corporate Management Directives

Transfer Payment Accountability

Corporate Policy Branch
Program Management and Estimates Division
Management Board Secretariat
September 29, 1998

PURPOSE

- To establish an effective framework for the prudent management of provincial transfer payment funds, consistent with the accountability framework established by the Management Board Directive on Accountability.

APPLICATION AND SCOPE

- This Directive applies to all public servants who are responsible for managing those transfer payments which appear in the annual Estimates (program managers).
- Program managers must follow this directive to the full extent permitted by legislation and the authorities delegated to them. This delegated authority must be clearly set out in the processes established by Deputy Heads under the Accountability Directive.

PRINCIPLES

Transfer payments should be managed wisely and prudently to achieve value for money. "Value" in this context refers to results expected for funds approved.

Transfer Payments should support the planned objectives and results of programs, through approved activities, within authorized conditions and criteria.

Program managers are expected to account for all public funds allocated for transfer payment programs.

The administration of transfer payments should be as straightforward and efficient as possible. Program managers should take into account all reporting obligations of transfer payment recipients, and should only add reporting requirements where pre-existing reporting obligations are not sufficient to satisfy accountability requirements.

MANDATORY REQUIREMENTS

Program managers must ensure that all transfer payments are managed with the following accountability elements in place:

Defining expectations

Expectations for results which are to be achieved with transfer payment funds should focus more on measurable results than on process.

Expectations may be established by legislation, regulations or by Cabinet approval of a specific program and related funding.

Where program design requirements contained in approval documents do not address all aspects of program administration, program managers must ensure that administrative requirements are adequate to support the achievement of approved objectives.

In the case of entitlement programs, recipients are expected to meet eligibility criteria, and to continue to meet these criteria as long as they receive funding. Program managers must ensure that these criteria are met prior to approving funding or advancing funds.

In the case of transfers made under cost-sharing agreements, expectations are established by the terms of the agreement.

In the case of grants, program managers must ensure that grants are only given:

- according to program criteria which have been approved by Cabinet;
- in amounts not exceeding requirements for the fulfilment of approved program objectives; and
- in accordance with commitments made in annual ministry business plans.

For all transfer payments, wherever program managers have discretion over payment terms, the cost to the Province of payment arrangements must be taken into account along with recipients' cash flow requirements. (footnote 3 - link)

Agreements

Transfer payments involve an agreement between the Province and the recipient. This can be a negotiated agreement, or it can be the result of the Province setting conditions for funding and the recipient agreeing to them by applying for funding.

In the case of entitlement programs, the contractual arrangement will consist of written representations on the part of recipients that they meet eligibility criteria, supported by whatever proofs are required by particular programs.

In the case of payments under cost sharing agreements, and grants, program managers must ensure that, prior to advancing any provincial funds to recipients, signed agreements are in place which:

- bind the recipient to achieve specific, measurable results according to established expectations;

- require recipients, as a condition of funding, to have in place the governance and the administrative structures and processes necessary to ensure prudent and effective management of public funds;

- require recipients to provide periodic reports on financial status and relevant financial and program results achieved. The frequency of required reporting should be at least annual. Timeliness is important to ensure the relevance of reported information, and recipients must be required to report on results as soon as is reasonable in the circumstances;

- clearly establish the Province's right to require independent verification of reported information by independent professionals;

- limit the obligations of the Province according to the terms of the program approved by Cabinet; and

- permit the recovery of provincial funds and/or the discontinuance of ongoing funds in the event of recipient non-performance.

Monitoring and Reporting

Program managers must routinely obtain and review information on the status of recipient eligibility or performance. Depending on the nature of the program and the program manager's assessment of risk, such monitoring may involve a range of actions such as informal contact with recipients, review of recipient reports, site visits, or audits.

Program managers must ensure that all required reports are received when due, and they must review and analyze these reports on a timely basis. Program managers are also responsible for identifying non-compliance with agreements and failure of recipients to demonstrate continued eligibility.

Corrective action

Program managers must initiate corrective action where a recipient has failed to comply with any of the terms of the agreement. Where non-compliance or ineligibility is identified, program managers must take corrective action where it is within their authority to do so. Where appropriate corrective action is outside their direct authority, program

managers must bring the situation to the attention of officials with the necessary authority.

The nature of corrective action will depend on the type and extent of non-compliance, but in all cases the objective of corrective action is to ensure that provincial funds are either used as specified in agreements or returned to the provincial treasury.

RESPONSIBILITIES

Deputy Heads

Deputy Heads are responsible for ensuring that accountability processes that meet the mandatory requirements of this directive are in place and are maintained.

Secretary of Management Board

The Secretary of Management Board is responsible for recommending to Management Board a policy framework for sound transfer payment management.

Program Managers

Program managers are responsible for meeting all mandatory requirements of this directive, for adhering to accountability processes established by their deputy heads, and for ensuring that satisfactory records are maintained.

DEFINITIONS (footnote 1 - link)

Transfer payments

One way that the government meets its objectives and carries out its programs is through transfers to individuals, organizations or other governments. Government transfers are transfers of money from a government to an individual, an organization or another government for which the government making the transfer does not:

a) receive goods or services directly in return, as would occur in a purchase or sale transaction;

b) expect to be repaid in the future, as would be expected in a loan; or

c) expect a financial return, as would be expected in an investment.

Major types of transfers include entitlements, transfers under shared cost agreements, and grants.

Entitlements

Entitlements are transfers that a government must make if the recipient meets specified eligibility criteria. Such entitlements are non-discretionary in the sense that both:

(a) "who" is eligible to receive the transfer; and

(b) "how much" is transferred are prescribed by legislation and/or regulations.

Under programs establishing entitlements of individuals, the government normally sets no criteria for how the funds transferred must be used.

Transfers under shared cost agreements

Transfers under shared cost agreements are a reimbursement of eligible expenditures pursuant to an agreement between the transferring government and the recipient.
Grants
Grants are transfers that are made at the discretion of a government. The government making the transfer has discretion in deciding whether or not to make a transfer, the conditions to be complied with, if any, how much will be transferred and to whom. (footnote 2 - link)

FOOTNOTES

1. These definitions are adapted from the Canadian Institute of Chartered Accountants PSAAB standard 3410 (1995) on "Government Transfers".

2. CICA PS 3410.41 notes that "Some transfers may have characteristics of more than one of the major types of transfers. Some provincial transfers to hospitals and universities may have characteristics of both entitlements and grants."

3. Refer to the Ministry of Finance Guideline on managing cash flow. Note that the grandparenting provision for existing program arrangements in the Guideline applies.

- If you have any questions or require further information about this document, you may contact Brinda Murti by email or telephone at 416-326-5696.

Appendix E: Excerpts, Annual Report, The Education Quality and Accountability Office

Annual Report of the Education Quality and Accountability Office

EQAO

Education Quality and Accountability Office

1998-1999

Comments from the CEO

Improvement is not a mystery. Schools, classrooms and school systems can and do improve every day. In each case, improvement depends on focussed intention, sincere effort, intelligent direction and skillful execution. By examining data from a variety of sources and reflecting on the extent to which goals have been achieved, people sustain their commitment. Schools and communities thrive on concrete evidence of progress. They also renew their resolve to address those areas that still call for attention. Excellence is never an accident.

Since our first *Provincial Report* was released in the fall of 1997, our assessment program has expanded to provide more comprehensive information about student achievement. In addition to the annual Grade 3 assessment of reading, writing and mathematics, we now have an annual Grade 6 assessment that tests all students' knowledge and skills in the same three subject areas. These two assessments provide both individual and system data on student achievement at key points in elementary school.

In 2000-2001, we will be introducing two new assessments that will measure all students' reading, writing and mathematics skills in the early stages of secondary school. The new Grade 9 mathematics assessment will help educators address the gaps in students' skills that were identified in last year's Grade 9 sample mathematics assessment and in various national and international assessments. The new Grade 10 Test of Reading and Writing Skills will help to ensure that students have the communications skills they need to function successfully in school and in other aspects of their lives.

Once this expanded assessment program is in place, we will have accurate and comprehensive information on achievement as students progress through the elementary and secondary system. We will be able to examine patterns in student achievement across grades and over time, both provincially and locally.

The Education Quality Indicators Program (EQUIP) that we are now developing will provide richer information for understanding the factors that affect student achievement and for evaluating the learning environments in schools. We began pilot testing EQUIP last year and are now moving ahead with implementation.

Accountability places obligations on schools as well as on the communities that support them. We expect that teachers, parents and others in the education community are using the data from our assessments to foster and monitor progress. Every fall, educators in schools and boards work with parents to create action plans for improvement. As people work through the results and create action plans, they develop a sense of shared responsibility and a determination to bring about the changes that are required.

Our communities deserve evidence that our schools are making decisions and taking action in the interests of all our children. EQAO's assessment program contributes to the capacity of schools to communicate what we expect our students to learn, how well they are learning it and what is being done to continue improvement.

Results from assessments challenge us to evaluate where we are against where we want to be. They hold up a mirror to performance. By celebrating victories and confronting weaknesses, we can make the changes that will improve education for every student. Small steps often lead to significant success.

Joan M. Green
Chief Executive Officer

Background

About the Term "Assessment"

You will find the word "assessment," rather than "testing," used throughout this report. Assessment is a broader concept that includes, but goes beyond, what is usually meant by the word "test." EQAO's work does test student knowledge and skills, giving concrete indicators of what students know and can do. This is the type of testing that should happen every day in classrooms as teachers determine how and what students are learning and what needs to be done to help each student move forward.

EQAO ASSESSMENTS

- are made up of tasks that continue during class periods over several days;
- give us a broad view of students' knowledge and skills;
- require students to work independently to complete challenging tasks in every area of the curriculum being assessed;
- require students to illustrate their thinking processes as they solve problems, express opinions and formulate answers;
- act as a catalyst for classroom and system improvements.

Background

As Ontario's education auditor, EQAO provides accurate, reliable and current information about student achievement and the quality of education in publicly funded schools. Educators, parents, policy makers and members of the public use this information to plan programs and make decisions.
– Barbara Smith, Chair

This report explains what EQAO has achieved relative to its core values and businesses.

EQAO's Policy Framework and its establishing legislation are reflected in the mandate and goal statements used in this report.

EQAO continues to refine its internal data collection capacity to improve the range and relevance of its internal performance indicators.

Mission

EQAO will assure greater accountability and contribute to the enhancement of the quality of education in Ontario. This will be done through assessments and reviews based on objective, reliable and relevant information, and the timely public release of that information along with recommendations for system improvement.

Core Values

EQAO values the well-being of learners above all other interests.

EQAO values only that information which has the potential to bring about constructive change and improvement.

EQAO values the dedication and expertise of Ontario's educators and works to involve them in all of its activities.

EQAO values the delivery of its programs and services with equivalent quality in both English and French.

Background

Mandate

It is the legislated mandate of the Education Quality and Accountability Office to evaluate, report and make recommendations on

1. the quality and effectiveness of elementary and secondary education in Ontario, and
2. the public accountability of Ontario's boards of education.

Goals

To meet its mission and mandate, EQAO works to attain three goals:

1. to develop and implement a comprehensive program of provincial student assessment;
2. to manage Ontario's participation in national and international assessments;
3. to introduce and manage a provincial Education Quality Indicators Program (EQUIP) to facilitate school, board and provincial accountability to the public.

Accountability

EQAO's role in enhancing educational accountability means that the Office has a special obligation to be accountable for its own activities. This *Annual Report* submitted to the Minister of Education addresses EQAO's accountability to the public, the education community and the government.

This report uses quantitative and qualitative indicators to report on EQAO's performance on all aspects of its mandate:

1. provincial student assessment
2. national and international assessments
3. Education Quality Indicators Program (EQUIP)

Five educational authorities play key roles in Ontario's education system: the Ministry of Education, the school boards and schools of Ontario, the Education Quality and Accountability Office, the College of Teachers and the faculties of education. Although each jurisdiction has specific roles and responsibilities within the educational community, together they share responsibility for ensuring a high-quality educational system that will produce a high level of student achievement across the province. Within this overall picture of shared responsibility, EQAO's mission is to monitor and report provincially on levels of student and system performance and make recommendations directed toward ongoing improvement of the educational system in order to improve student achievement.

Core Values

1. EQAO values the well-being of learners above all other interests

Assessment is part of the learning process, not separate from it. Good assessment contributes to effective teaching and learning. For EQAO, valuing the well-being of learners means designing assessments that are challenging, inviting and respectful to all students and integrated with classroom activities.

DEMONSTRATING THIS VALUE

- EQAO's assessments are designed to provide teachers with information that can be used to plan subsequent instruction programs for individual students and/or groups of students. Results of the assessments are supplementary to, not a substitute for, information resulting from regular classroom assessment.
- The assessment process is created to be inclusive, inviting all students to participate to the best of their ability while, at the same time, accommodating student differences and diversity in terms of language and special education needs.
- Assessments are designed to be integrated comfortably with classroom learning and to be engaging and enjoyable for students, thus valuing the student's natural learning process. This year, EQAO implemented the first census Grade 6 assessment conducted at the same time as the Grade 3 assessment. The Office will be carefully monitoring the responses and suggestions from principals, teachers and parents.
- Valuing students also means reporting student achievement results to their parents or legal guardians. The *Individual Student Report* demonstrates to parents and students that EQAO is committed to providing good information about individual student performance.

2. EQAO values only that information which has the potential to bring about constructive change and improvement

An endless amount of information about educational performance could be collected. EQAO believes that taxpayers receive the best value for money spent when we focus on information that can be used to guide efforts that aim at improvement in elementary and secondary education. The results of our assessments must provide parents, educators and students, as well as school boards and the Ministry, with the information they need to work collectively towards improvement.

DEMONSTRATING THIS VALUE

- The *Individual Student Report*
  1) clarifies expectations for student academic performance at key stages, allowing parents to evaluate their children's progress,
  2) gives parents information they can use when talking to teachers about their children's progress, and
  3) provides information to teachers for instructional planning.
- The *School Report* provides boards and schools with summaries of student performance at the school level, which they use to
  1) report to their community, and
  2) develop their own action plans for improvement.
- The *Board Report* enhances accountability by providing the public and school boards with a summary of student performance at the board level.
- The *Provincial Report on Achievement* is issued at the same time to schools, boards, the Ministry and community and education groups. It acts as a catalyst for collective discussion on the quality of elementary and secondary education in selected grades in Ontario, based on results of assessments at the provincial, national and international levels.
- This year, school boards were asked to work with their local communities to develop school and school board action plans for improvement and to submit them to EQAO. Each submission was analyzed and EQAO responded to each board identifying the characteristics of excellent plans. EQAO will be facilitating the sharing of exemplary practices in these action plans across the province.
- For each province-wide assessment, EQAO collects information through questionnaires. This information is focussed on areas that will help us understand which factors relate to high student achievement.
- EQAO's quality indicators program will engage communities in discussions about student improvement.

3. EQAO values the dedication and expertise of Ontario's educators and works to involve them in all of its activities

Quality at the classroom level requires teachers to be informed of, and engaged in, educational reform. EQAO involves educators in the delivery of all our programs, from the development of assessment instruments through their field testing, administration and marking, to the reporting of results. In addition to direct teacher involvement, our processes for seeking educator feedback ensure the ongoing dialogue essential to fulfilling EQAO's mission. All of these activities build the capacity of teachers.

DEMONSTRATING THIS VALUE

- The development of EQAO's assessments reflects many conversations between the Office and teachers, parents, school boards and students.
- Educators across the province are widely involved in developing and critiquing draft assessment instruments and validating those instruments through field testing.
- Educators across the province are appointed to all committees, including the Assessment Advisory Committee.
- EQAO provides training every year to thousands of teachers and principals involved in the administration of the assessments.
- There was a significant increase in the number of educators that applied to be part of the marking process. EQAO received over 9,000 applications.
- The vast majority of markers selected are practising teachers who apply knowledge gained from the marking exercise in their classrooms. This results in higher quality and greater consistency of student assessment across the province.
- Educators are kept up-to-date on EQAO activities through a variety of communication strategies: a toll-free line for input, newsletters, a video, personal responses to all letters and telephone calls received.
- Educators have the opportunity to provide EQAO with feedback throughout the assessments – development, field testing, training and administration processes. Educators are provided with formal questionnaires for feedback at three stages of the assessments – following the training to prepare for their administration, following completion of the assessments and after training for marking the assessments. At the end of the marking process, each teacher is involved in an evaluation activity which provides valuable feedback for future planning.

4. EQAO values the delivery of its programs and services with equivalent quality in both English and French

French-language schools and students in Ontario face unique educational challenges. EQAO ensures that all of its program initiatives take into account these circumstances and recognize Francophone education rights.

DEMONSTRATING THIS VALUE

- French-language assessments are developed and conducted to reflect the French-language curriculum and culture and are not simply translations of the English-language assessments. French-language assessments are developed by Francophone educators within and external to EQAO.
- All procedures for the development, implementation and marking of the assessments are conducted to the same standards of quality for both languages. External Francophone experts are included in policy development, the development of materials, training, analysis, the reporting of results and on the Assessment Advisory Committee.
- English and French communications are scheduled at every point in the process (e.g., newsletters, conference calls and meetings).
- Parallel outreach efforts (e.g., meetings with parents and teachers) are conducted in both official languages.
- EQAO took a lead role among the provinces in ensuring that French- and English-language materials for all national and international assessments (i.e., SAIP, TIMSS) were of equivalent quality.
- In 1998-1999, all French Immersion students in the province were included in the assessments in Grades 3 and 6.

Core Businesses

1. Provincial student assessment

Assessment of student learning is at the heart of EQAO's mandate. EQAO assessments are designed to meet the Office's dual mission of accountability and improvement.

Expected Result: Students, parents and educators will have valid, reliable and consistent information and recommendations about student performance that will provide a sound footing for improvement efforts, at both the local and provincial levels. Teachers will have high-quality assessment models with which to improve their own assessment processes.

ACCOMPLISHMENTS IN FISCAL YEAR 1998-1999

1998-1999 Assessments (Grade 3 and Grade 6):

- Teachers and principals across the province were trained in the administration of the Grade 3 and Grade 6 assessments.
- Private schools were invited to participate in the assessments on a fee-paying basis.
- Approximately 290,000 students participated in the Grade 3 and Grade 6 Assessments of Reading, Writing and Mathematics over five half-days.
- Approximately 2,800 teachers were trained and served as markers for the Grade 3 and Grade 6 assessments.
- 284,130 *Individual Student Report* forms covering 17 areas of performance were produced and sent to Ontario schools.
- Student, home, teacher and principal questionnaires were distributed to obtain additional information on factors associated with achievement for the Grade 3 and Grade 6 assessments.
- Grade 3 and Grade 6 assessment results and associated information were reported to parents, teachers, schools, boards, the Ministry and the public at large through the *School Reports, Board Reports* and the *Provincial Report on Achievement.*
- EQAO reviewed all feedback received from parents, educators and students regarding the Grade 3 and Grade 6 assessments and used this information to set future directions.

1999-2000 Assessments (Grade 3, Grade 6 and Grade 10):

- School board staff and principals were prepared for the Grade 3 and Grade 6 assessments through a variety of regionally based training sessions.
- The Grade 3 and Grade 6 assessment instruments were drafted, field tested, refined and validated, ready for administration in 1999-2000.
- The Grade 10 Test of Reading and Writing Skills was developed and preparations were made for pilot testing in May and October 1999.

2. National and international assessments

EQAO's province-wide assessments supply high-quality information about how our students are performing in relation to provincial standards. In order to understand the performance of Ontario's students in relation to students in other provinces and countries, EQAO manages Ontario's participation in national and international assessments.

Expected Result: Educators across Ontario will have comparative data and recommendations by which to assess the performance of Ontario's students in relation to student achievement in other provinces and countries, and to make program improvements. In addition to provincial and local assessment programs, it is expected that this information will provide further insight for educators in Ontario.

ACCOMPLISHMENTS IN FISCAL YEAR 1998-1999

- The School Achievement Indicators Program (SAIP) Reading and Writing assessment was administered in April/May 1998 to 6,493 13- and 16-year-olds (English and French) in Ontario as part of the Council of Ministers of Education, Canada's (CMEC) national project. This involved considerable collaboration in the design, implementation and reporting of the assessment. Ontario/EQAO was part of the development team for the project. Ontario results were released by EQAO in March 1999.
- SAIP Science was developed for administration in the spring of 1999. Ontario/EQAO was part of the development team for this project. Results are expected in January/February 2000.
- The Third International Mathematics and Science Study Repeat project (TIMSS-R) was developed for administration in the spring of 1999. This international study, conducted under the auspices of the International Association for the Evaluation of Educational Achievement (IEA), involved a randomly selected sample of Ontario Grade 8 students. Results are expected in the summer of 2000.
- The research commissioned on TIMSS in 1997-1998 resulted in a series of resource documents containing practical instructional suggestions for Ontario mathematics and science teachers for release in the fall of 1999.
- The Second Information Technology in Education Study (SITES) Module 1 was conducted in November and December 1998. This international study, conducted under the auspices of IEA, involved random samples of approximately 1,100 Ontario English and French schools enrolling students in Grade 5, 9 and 12/OAC. School principals and school computer coordinators responded to questionnaires about computers and computer use in schools. Results are expected in September/October 1999.
- SITES Module 2 was developed for pilot testing in 1999-2000 and for actual administration in 2000-2001. This international study, conducted under the auspices of IEA, involves case studies of schools that display exemplary, innovative practices in the use of technology in education. EQAO, together with York University's Centre for the Study of Computers in Education, is part of the consortium to coordinate this project internationally. The other members of the consortium are Stanford Research Institute in the U.S. and the Centre for Applied Research at the University of Twente, the Netherlands.

- The Organisation for Economic Co-operation and Development (OECD) Program of International Student Assessment (PISA) was developed for pilot testing in April/May 1999 and for actual administration in the spring of 2000. This study will involve a random sample of 15-year-old students. The major subject of the assessment will be reading; the minor subjects will be mathematics and science.

Other Business

1. An Education Quality Indicators Program (EQUIP) to facilitate school, school board and provincial accountability to the public

Information about student achievement is an essential part of accountability and a foundation for improvement. However, it is also important to have a broader base of contextual data if we are to have a good understanding of factors affecting school quality, and if we are to use that understanding to work toward better schools. EQAO is now creating an Education Quality Indicators Program (EQUIP). The overall goal of EQUIP is to create a set of indicators that will provide a comprehensive and readily understood picture of elementary and secondary education in the province. Indicators can include qualitative information (such as a school's educational philosophy) and quantitative information (such as the teacher/pupil ratio). In the future, consideration will also be given to other forms of quality assurance programs linked to EQUIP.

Expected Result: Educators, government and the public will have a set of quantitative and qualitative indicators that will provide a comprehensive and readily understood picture of elementary and secondary education in Ontario.

- After consultation with the public, EQAO is working with an advisory group of education and community experts to refine a provincial model of education performance indicators to be piloted in 1999-2000.

Strategic Directions

EQAO is committed to creating and sustaining an organization that is well-balanced operationally and strategically. In support of its core businesses, EQAO has made a commitment to four strategic directions: quality management, information management and technology, corporate communications and revenue generation.

Expected Result: Educators and school boards throughout Ontario will be able to turn to EQAO for high-quality professional advice and products related to educational assessment.

ACCOMPLISHMENTS IN FISCAL YEAR 1998-1999

Assessment Direction:

- EQAO's expanded mandate, including students in Grade 3 and Grade 6, will involve assessing an estimated 700,000 students per year beginning in 2001.

Quality Management:

- In response to its expanded mandate, EQAO adopted enhanced organizational structures, work processes and systems. Work is ongoing into 1999-2000. Results in this regard will be reflected in the agency's reporting on its internal quality and cost-effectiveness indicators.

Corporate Communications:

- EQAO initiated development of a *Parent Handbook* to introduce province-wide testing to parents and explain how they can use assessment results to improve learning for their children. Copies were distributed in conjunction with the 1998 provincial assessments.
- EQAO developed an *Educator Handbook* to assist teachers, principals and school boards in interpreting and reporting the results of the 1997-1998 Grade 3 assessment.
- Six EQAO newsletters were produced in English and French and distributed to schools, school boards, parents and other stakeholders across Ontario. In addition three training and informational videos in English and French were produced.
- As President of the Canadian Education Association, the Chief Executive Officer raised the profile of EQAO's work nationally and internationally.

Revenue Generation:

- EQAO generated over $135,000 through voluntary participation in EQAO's Grade 3 assessment, report sales and consulting services.

Performance Indicators

EQAO is implementing a set of internal performance indicators as part of its quality-management efforts. Candidates for this set are outlined in EQAO's 1999-2000 Business Plan. The indicators listed here reflect data available for:

- the administration of the 1998-1999 Grade 3 and Grade 6 provincial assessments (the 1998-1999 assessments were administered in May 1999 and will be reported on in EQAO's *1998-1999 Provincial Report on Achievement*)
- preparation for the 1999-2000 Grade 3, Grade 6 and Grade 10 provincial assessments
- 1998 SAIP (reading and writing) assessments
- 1998-1999 revenues

Indicators

- Approximately 290,000 students participated in the 1998-1999 provincial assessments.
- 3,516 English-language schools and 284 French-language schools participated in the 1998-1999 provincial assessments.
- 6,493 13- and 16-year-olds participated in the 1998 SAIP assessment.
- 284,130 *Individual Student Reports* were distributed for the Grade 3 and Grade 6 Assessments in Reading, Writing and Mathematics.
- 12,100 copies of the *Provincial Report on Achievement* were distributed province-wide.
- 10,000 copies of the *Educator Handbook* were distributed province-wide.
- Over 300,000 copies of the *Parent Handbook* were distributed province-wide.
- Over 90% of teachers and principals were satisfied with training provided by EQAO.
- 3,631 teachers participated in marking the assessments.
- 71 of 72 school boards submitted action plans for improvement identifying concrete strategies to improve learning and teaching in their schools.
- The cost of a full cycle of the Grade 3 assessment per student was $45.00.
- The cost of a full cycle of the Grade 6 assessment per student was $45.00.
- $135,852 in revenue was raised through voluntary participation by private schools in the Grade 3 and Grade 6 assessments, sales of reports and consulting work.

Appendix F: Excerpt, *Beyond the numbers: A new financial management and accountability framework for Ontario, November 1995*

Recommendation I.15: That government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.

Discussion: A framework that draws together elements that are frequently unrelated at present will result in better planning, greater accountability and improved performance.

An important element of planning and evaluating is making sure that the structure of the organization is best suited to the outcome the government is seeking. Section III of this report, Crown agencies, addresses the question of appropriate structure.

Recommendation I.16: That, as part of the framework, each ministry:

- prepare a three-year business plan that reflects the government's priorities;

- maintain the three-year outlook by updating its plan annually before the start of each fiscal year;

- specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan;

- outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;

- include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;

- explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and

- provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.

Discussion:

As part of their efforts towards better financial management and use of public resources, governments are focusing on better ways of delivering services. In particular, they are taking steps to plan their activities better and use information about past performance to find improvements in future.

A framework that links the resources that go into government activities to the cost and quality of results is essential to this process. Success depends on timely and accurate information; consistent measurement of outputs and outcomes; and action based on those measurements.

The three-year time horizon both dovetails with the outlook period recommended for the government's over-all business plan included in its Budget, and encourages longer-term strategic planning. Making the plan available to a Legislative committee that later reviews performance against plan is essential to improving performance and strengthening accountability.

A performance measurement survey of ministries carried out at the request of the Commission reported widespread belief that information on performance and effectiveness is critical to governing ministries. A side benefit of the survey was that it stimulated further thinking in the ministries about the subject.

The Commission does not intend to discuss performance measurement in detail, either for government as a whole or for individual ministries, programs or agencies. There is already a body of expertise in this area within the provincial government and other organizations. Appendix III gives examples of the general principles of performance measurement.

Recommendation I.17: That government initiate a system of recognition and rewards in the public service to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

Discussion: The current environment in government does not support the cultural change that is needed to make the public sector more efficient and effective. One major stumbling block is the budgeting process. At present, managers who come in under budget because of efficiency may be "punished" as their base budget for the next year may well be lowered, without regard to need. Other programs may continue to receive funding even though the program no longer meets an identified need, or meets needs inefficiently. At the ministry level, because cuts are often applied uniformly, a ministry which is operating efficiently will face the same proportionate spending cut as a ministry which may be highly inefficient.

This reflects a failure to set consistently rigorous standards for expected ministry and program performance. Existing financial-management and reporting systems in ministries are incompatible, so it is difficult or impossible to get data to compare performance on a consistent basis.

The Commission believes that a better planning and performance measurement system will help to set budgets that reflect the goals of government, the objectives of programs, and the most efficient and effective way of delivering service. Moving to a single financial management and reporting system, as discussed in Recommendation II.2, is vital to this effort and to measuring the results consistently.

But removing disincentives is only one part of improved performance. To maximize efficiency, government should provide financial incentives to recognize cost savings which staff find.

The Commission is aware of the need for careful design of such a program. First and foremost, cost-saving measures must ensure that the organization still provides the planned level and quality of service (or improves on it). As well, careful thought should be given to how savings will be measured.

These caveats aside, there is evidence of interest in this approach elsewhere, as outlined in Appendix III, which also refers briefly to an existing model.

A properly designed incentive system would not increase government's costs or reduce service. On the contrary, the Commission believes it would result in significant savings by encouraging employees at every level to find ways of working more cost-effectively.

Appendix G: Issues in the reporting of tangible capital assets in the public sector

At present, many governments, including the Province of Ontario, treat spending on long-lived assets (which are also called "fixed assets" or "tangible capital assets") as an expense in the year in which the spending takes place. However, as the Public Sector Accounting Board (PSAB) notes in a paper supporting a revised model for reporting on tangible capital assets:

> *Governments acquire tangible capital assets that have economic lives extending beyond the accounting period. They are available for use, requiring operating and maintenance expenditures and may need to be replaced in future. They include assets on hand and available for use by government in the near future such as equipment, and assets for use over a longer period such as buildings and land. Governments also acquire and make available to the public, tangible capital assets that are complex network systems, such as highways, bridges, waterways and railways.*
>
> – Preliminary Views Document, Proposed Revised Section PS1500, General standards of financial statement presentation, subsection .83

This paragraph is a reminder that government acquires a variety of assets with a range of expected service lives. Some of these are used up quickly, while others clearly have much longer expected lives.

When a government "expenses" a capital asset – that is, shows the spending as an expense item in the year it was acquired or created – it is effectively treating the asset as if it disappears after that year. The item does not show up on the asset side of the government's balance sheet. Since no tangible capital assets are recorded on the balance sheet, there is no indication in the government's accounting records of what total pool of long-term assets it owns, how old they are, what kind of condition they are in, or how soon they might need to be replaced. Once they are purchased, long-term assets – which are often essential drivers of economic growth – seem, for financial reporting purposes, no longer to exist.

In contrast, in private-sector companies – and a growing number of governments – it is common practice to show spending on long-term assets separately in financial statements from spending on items that are consumed within one year. Short-term items, which support day-to-day operations, are included as expenses on the company's income statement.

Accounting by private-sector enterprises acknowledges that long-lived assets have a finite life span that can be estimated, and that the remaining life span of an asset gets shorter every year. To account for this, every year an amount called "amortization" is deducted from the company's revenues in calculating the net income shown on its balance sheet. Amortization is an estimate of the reduction in value of the long-lived asset in that year; it is not an actual outflow of cash.

In private enterprises, long-term fixed assets (factories, machinery and so on) are listed on the company's balance sheet. Shareholders and others can see the total the company has spent on these items over several years, as well as the "accumulated amortization" (the cumulative sum of the amortization charged each year), and the net amount of long-term assets after accumulated amortization is subtracted. From looking at these figures over several years, they can get a sense of how long the company has had the assets, how much of their useful life has been used up, and how well the company is maintaining its asset base. This way of presenting long-lived assets is called the "historic cost basis." From the other side of the balance sheet, users of financial statements can see the balance between net assets and the long-term debt that is often used to finance those assets.

Amortization is not a perfect tool for measuring the cost of using an organization's assets. New technology might make a piece of machinery obsolete earlier than expected, or a building may turn out to go up in value because of a real-estate boom, instead of declining. As a result, financial analysts, lenders and economists may all have additional ways of viewing the value of assets over time.

However, recording assets and their accumulated amortization on the balance sheet, and charging each year's amortization to income – practices that together comprise "accrual accounting" for long-lived assets – does have very real benefits for those who make financial decisions in companies, and those who assess a company's financial health. This accounting treatment:

- Makes it clear that spending on long-term productive real assets is different from spending on day-to-day items;

- Serves to flag the fact that assets have a fixed lifespan, and generally decline in value over time;

- Gives a sense of whether an organization's net asset base is growing or shrinking;

- Establishes a framework for dealing with fixed assets that is fairly consistent from one organization to another; and

- Provides a means of assessing the costs and benefits of long-term assets over their lifetime.

When these points are examined in relation to assets owned by the public sector, it becomes clear that accounting treatment has very important repercussions for the government's stewardship of public assets. In the absence of an appropriate accounting system, the government and public have no useful information about long-term public assets, making it difficult to reach wise decisions about what to spend on maintaining or replacing the assets.

However, there are enough differences in the way that government uses long-term assets – especially that sub-set of assets called "infrastructure" – to have sparked concerns about how to record and report on government assets.

What Makes Infrastructure Different?

Infrastructure comprises the assets that provide services widely available to the public, such as water supply and waste-water treatment, or a highway system. These assets meet the definition of tangible capital assets in many aspects. They are large and costly to build, and clearly expected to provide service for longer than one reporting period. However, they are very different from most private-sector tangible capital assets:

- They are not intended primarily for the use of the reporting entity (that is, the government that built them), but for the broader public;

- They do not usually create a stream of payments to government, but on the contrary require continuous spending to maintain their condition;

- They may have a life measured in decades or even centuries, a much longer time horizon than is usual for assets used by the private sector;

- That time horizon may be extended considerably by timely and appropriate maintenance; and

- An individual infrastructure asset is usually part of a large, complex and stationary infrastructure system (for example, a network of highways, bridges, and tunnels).

Public administrators and accounting professionals continue to examine ways in which financial reporting and accounting might reflect these aspects of infrastructure. However, as yet no broadly agreed-upon alternative model for reporting on infrastructure assets has emerged.

Appendix H: PSAB Preliminary Views Document: Recommendations

RECOMMENDATIONS

The model proposed in the Preliminary Views Document has the following features:

1. **A statement of operations** that reports the excess or deficiency of revenues over expenses as the measure of a government's surplus or deficit for the accounting period;
2. **A statement of financial position** that reports net debt as an indicator and then deducts non-financial assets from net debt to measure the government's accumulated surplus or deficit;
3. **A new statement of changes in net debt** that reconciles between a government's total expenses for the period and a government spending on operations in the period; and reports the capital spending in the period, the extent to which total government spending was financed by revenues earned in the period (i.e., the change in net debt in the period), and also reports the opening and closing net debt balances;
4. **A statement of cash flow** that replaces the statement of changes in financial position

   The primary changes include the exclusion of significant non-cash items, a narrower definition of cash and cash equivalents, a requirement to report cash flows on a gross basis except in narrow circumstances, and a requirement to reconcile the cash and cash equivalents balances reported on this statement to those reported on the statement of financial position. In addition, the cash flows from operating activities are calculated using the indirect method that adjusts the surplus or deficit for the accounting period to the amount of cash used by or available from operations. In addition, capital acquisitions are included as an operating activity for a government. In contrast, a business would normally include its capital acquisitions as an investing activity. This different categorization is made because capital acquisitions do not meet the definition of an investing activity for a government. Cash flows from investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. For governments capital assets primarily embody future service potential, not future cash flows.
5. **No statement of tangible capital assets.** This statement has been replaced by disclosure of the information previously required to be reported in it.

Sample financial statements illustrating the financial statements in the proposed model are attached as an Appendix.

The Preliminary Views that flesh out the proposed model are as follows:

PV 1 **Financial statements should include a statement of financial position, a statement of operations, a statement of changes in net debt, and a statement of cash flow.** (PVD paragraph PS 1500.60)

PV 2 **The statement of financial position should report the difference between a government's liabilities and financial assets at the end of the accounting period.** (PVD paragraph PS 1500.65)

PV 3 **The statement of financial position should account for the difference between a government's net debt and its non-financial assets, as the accumulated surplus or deficit of the government at the end of the accounting period.** (PVD paragraph PS 1500.68)

PV 4 **The statement of financial position should report a government's financial assets segregated by main classifications, such as:**
(a) cash and temporary investments;
(b) revenues receivable;
(c) inventories for resale;
(d) loans and advances to other governments;
(e) other loans and advances;
(f) portfolio investments; and
(g) investments in government business enterprises.
(PVD paragraph PS 1500.77)

PV 5 **The statement of financial position should report a government's non-financial assets segregated by main classifications such as:**
(a) tangible capital assets;
(b) inventories held for consumption or use;
(c) advance payments of government transfers; and
(d) other prepayments.
(PVD paragraph PS 1500.82)

PV 6 **The financial statements should disclose, for each major category of tangible capital assets:**
(a) cost;
(b) additions in the period;
(c) disposals in the period;
(d) the amount of any write-downs in the period;
(e) the amount of amortization of the costs of tangible capital assets for the period;
(f) accumulated amortization at the beginning and end of the accounting period; and
(g) net carrying amount at the beginning and end of the accounting period.
(PVD paragraph PS 1500.86)

PV 7 **As a minimum, the financial statements should disclose the net carrying amount of non-financial assets other than tangible capital assets at the beginning and end of the accounting period.** (PVD paragraph PS 1500.89)

PV 8 **The statement of operations should:**
(a) report a government's revenues of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments.

(b) report a government's expenses of the accounting period, including valuation allowances, by function or major program; and

(c) account for the difference between its revenues and expenses in the accounting period, as the measure of the surplus or deficit of the government for the accounting period. (PVD paragraph PS 1500.99)

PV 9 **Revenues, including gains, are recognized in the period in which the transactions or events occurred that gave rise to the revenues. Gains are generally recognized when realized. Items not practicably measurable until cash is received would be accounted for at that time.** (PVD paragraph PS 1500.117)

PV 10 **Revenues, other than gains, should be reported in the financial statements at gross amounts.** (PVD paragraph PS 1500.120)

PV 11 **Expenses, including losses, are generally recognized when a liability is incurred or a previously recognized asset does not have future economic benefit. Expenses are related to a period on the basis of transactions or events occurring in that period or by allocation. The cost of assets that benefit more than one period is normally allocated over the periods benefited.** (PVD paragraph PS 1500.122)

PV 12 **Expenses, other than losses, should be reported in the financial statements at gross amounts.** (PVD paragraph PS 1500.123)

PV 13 **The financial statements should disclose the expenses of the accounting period by object.** (PVD paragraph PS 1500.124)

PV 14 **The statement of changes in net debt should account for the extent to which a government financed its spending in the accounting period through revenues earned in the period. The statement of changes in net debt should report:**

(a) the total expenses of the accounting period as reported on the statement of operations;

(b) significant items that explain the nature of the difference between the total expenses of the accounting period and the spending on operations in the accounting period;

(c) the spending in the accounting period on operations,;

(d) the spending in the accounting period on capital acquisitions;

(e) the revenues earned in the accounting period;

(f) the extent of the change in the government's net debt in the period measured as the difference between total government

spending in the accounting period and total government revenues earned in the accounting period; and

(g) **the magnitude of net debt at both the beginning and end of the accounting period.** (PVD paragraph PS 1500.130)

PV 15 **Cash** comprises cash on hand and demand deposits. (PVD paragraph PS 1500.132)

PV 16 **Cash equivalents** are short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. An investment would normally qualify as a cash equivalent only when it has a short maturity or, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. When bank overdrafts which are repayable on demand form an integral part of a government's cash management, such that the government's bank balance often fluctuates from being positive to overdrawn, bank overdrafts are included as a component of cash and cash equivalents. (PVD paragraph PS 1500.133)

PV 17 **The statement of cash flow should report how a government generated and used cash and cash equivalents in the accounting period and the change in a government's cash and cash equivalents in the accounting period.** (PVD paragraph PS 1500.135)

PV 18 **The statement of cash flow should report cash flows during the period classified by operating, investing and financing activities.** (PVD paragraph PS 1500.136)

PV 19 **A government should report cash flows from operating activities using the indirect method by adjusting the surplus or deficit of the accounting period to the amount of cash used in or available from operations.** (PVD paragraph PS 1500.137)

PV 20 **A government should present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except in the following circumstances:**

(a) **cash receipts collected and payments made on behalf of entities external to the government reporting entity, including taxpayers and beneficiaries, when the cash flows reflect the activities of the external party rather than those of the government;**

(b) **cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short.** (PVD paragraph PS 1500.140)

PV 21 **Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the statement of cash flow. Such transactions should be disclosed in the financial statements in a way that provides all the relevant information about these investing and financing activities.** (PVD paragraph PS 1500.143)

PV 22 **A government should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in the statement of cash flow with the equivalent items presented in the statement of financial position. A government should disclose the policy it adopts in determining the composition of cash and cash equivalents.** (PVD paragraph PS 1500.145)

Appendix I: Illustrative financial presentations

The following three models illustrate how the financial statements of a government would change depending on the basis of presentation chosen:

Model #1: Applying current PSAB recommendations - Expenditure Basis

- Tangible capital assets are not reported on the Statement of Financial Position.
- Spending on tangible capital assets is expensed in the Statement of Revenues and Expenditures at the time of acquisition or construction.
- A Statement of Tangible Capital Assets is included as supplementary information.

Model #2: Applying current PSAB recommendations - Expense Basis

- Tangible capital assets are not reported on the Statement of Financial Position.
- Tangible capital assets are amortized into the Statement of Operations. This amortization is later adjusted so that the amount expensed reflects actual spending on tangible capital assets at the time of acquisition or construction.
- A Statement of Tangible Capital Assets is included as supplementary information.

Model #3: Applying PSAB's Preliminary Views Document

- Tangible capital assets **are** reported on the Statement of Financial Position.
- Tangible capital assets are amortized into the Statement of Operation.
- A Statement of Tangible Capital Assets is included in the financial statements.

SENIOR GOVERNMENT X

Illustrative Consolidated Statement of Tangible Capital Assets
for the period ended March 31, 2000

	Buildings $000	Dams and Canals $000	Roads and Bridges $000	Equipment $000	2000 Total $000
Cost of Tangible Capital Assets					
Opening Cost	264,033	264,967	460,129	101,504	1,090,633
Additions during the Year	61,439	70,125	114,455	163,348	409,367[1]
Closing Cost	325,472	335,092	574,584	264,852	1,150,000
Accumulated Depreciation					
Opening Accumulated Depreciation	(16,754)	(16,812)	(29,193)	(6,440)	(69,199)
Add: Depreciation	(10,375)	(10,412)	(18,081)	(3,989)	(42,857)[1]
Closing Accumulated Depreciation	(27,129)	(27,224)	(47,274)	(10,429)	(112,056)
Net Carrying Amount of Tangible Assets	**298,343**	**307,868**	**527,310**	**254,423**	**1,387,944**

SENIOR GOVERNMENT X *Illustrative Consolidated Statement of:*	**Model #1** *Revenues and Expenditures*	**Model #2** *Operations*	**Model #3** *Operations*
for the period ended March 31,	**2000 Actual**	**2000 Actual**	**2000 Actual**
Revenues	**$000**	**$000**	**$000**
Taxation	1,416,033	1,416,033	1,416,033
Government Transfers	1,134,329	1,134,329	1,134,329
Fees and Licences	711,229	711,229	711,229
Income from Government Enterprises	386	386	386
Other	9,232	9,232	9,232
Total Revenues	3,271,209	3,271,209	3,271,209
Expenditures/Expenses			
Agriculture and Food	266,248	246,830	246,830
Community and Social Services	1,214,300	1,154,588	1,154,588
Health	861,694	669,370	669,370
Environment	152,656	101,870	101,870
Education	350,059	341,275	341,275
Municipal Affairs	380,921	357,553	357,553
Transportation	155,437	143,319	143,319
Debt Servicing Cost	123,148	123,148	123,148
Total Expenditures/Expenses	3,504,463	3,137,953	3,137,953
Increase (Decrease) in Net Carrying Amount of Tangible Capital Assets[1]	N/A	(366,510)	N/A
Annual Surplus/(Deficit)	**(233,254)**	**(233,254)**	**133,256**

SENIOR GOVERNMENT X *Illustrative Consolidated Statement of Financial Position*	**Model #1**	**Model #2**	**Model #3**
as at March 31,	**2000 Actual**	**2000 Actual**	**2000 Actual**
Liabilities	**$000**	**$000**	**$000**
T-Bills	84,256	84,256	84,256
Long-Term Debt Outstanding	1,096,546	1,096,546	1,096,546
Pension Benefits	400,000	400,000	400,000
Vested Sick Leave Benefits	300,000	300,000	300,000
Accounts Payable and Accrued Liabilities	175,462	175,462	175,462
Deferred Revenue	8,879	8,879	8,879
Total Liabilities	2,065,143	2,065,143	2,065,143
Financial Assets			
Cash and Temporary Investments	55,685	55,685	55,685
Loans Receivable	86,935	86,935	86,935
Receivables	87,916	87,916	87,916
Inventories Held for Re-sale	42,835	42,835	42,835
Investment in Government Enterprises	6,800	6,800	6,800
Other Long-Term Investments	2,545	2,545	2,545
Total Financial Assets	282,716	282,716	282,716
Net Debt	**1,782,427**	**1,782,427**	1,782,427
Non-Financial Assets			
Tangible Capital Assets	N/A	N/A	1,387,944
Accumulated Deficit	**N/A**	**N/A**	**394,483**

[1] Increase in Net Carrying Amount of Tangible Capital Assets = $409,367 - $42,857 = $366,510.

Appendix J: Status of certain recommendations of the 1995 Commission

These recommendations have not been fully implemented and are still relevant:

Recommendation	Status	Comments
I. Planning		
I.2 That government present a three-year business plan as part of its annual Budget. This business plan should: • outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below; • explain government's targets for effective and efficient performance and how it will measure progress towards them; • report on progress towards established goals and explain the reasons for changes from its previous plan; and • outline the revenue, expenditures and economic projections for the upcoming year and the following two years.	Implemented in part	The Commission repeats this recommendation as originally written; see Chapter III, Recommendation III.1.
I.3 That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.	Not implemented	The Commission repeats this recommendation, with changes; see Chapter III, Recommendation III.4.
I.6 That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.	Not implemented	Repeated, with changes; see Chapter III, Recommendation III.5.
I.15 That government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability process. **I.16** That, as part of the framework, each ministry: • prepare a three-year business plan that reflects the government's priorities; • maintain the three-year outlook by updating its plan annually before the start of each fiscal year; • specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan; • outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;	In process Implemented in part	The Commission is satisfied that the government has embarked on developing a rigorous business planning and performance improvement framework for ministries. The framework will need continuing refinement to meet all of the objectives set out in the 1995 report. In particular, the Commission also believes it would be helpful to taxpayers and broader public sector organizations if ministries (or a central agency) were to provide more information on capital spending plans. This issue is addressed in Chapter II of this report.

Recommendation	Status	Comments
• include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years; • explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and • provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.		
I.18 That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.	Not implemented	Repeated as originally written. See Chapter III, Recommendation III.2 of this report.
I.19 That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority. **I.20** That the special review consider the following additional suggestions from the Commission: • an appropriate committee of the Legislature, which could be a renamed and re-defined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers; • the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one-third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans; • in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed; • the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous; • committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and • spending authority should be secured immediately after the tabling of the Budget.	Not implemented Not implemented	With regard to Recommendations I.19 and I.20, the Commission recognizes that determining the timing of spending authority, and the activities of the Estimates committee, is a responsibility of the Legislature, not the Minister of Finance (to whom the Commission reports). The Commission continues to be of the view that the current process for reviewing spending plans and securing spending authority does not allow the Estimates Committee to support improved financial management of government as fully as it might. The Commission believes the Legislature should reconsider the role of the Estimates Committee and the value of the Estimates process.

II. Financial reporting and accounting		
II.1 That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.	Implemented in part	Repeated, with changes. See Chapter III, Recommendation III.6, of this report.
II.2 That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.	In process	The government is currently undertaking this project.
II.4 That government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.	Not implemented	Repeated as originally written. See Chapter III, Recommendation III.3, of this report.
II.5 That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter: • an updated fiscal forecast for the year, compared to the Budget plan for the year; and • actual results for the current year-to-date, compared to year-to-date actual figures for the prior year. The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.	Implemented in part	Repeated, with changes. See Chapter III, Recommendation III.7, of this report.
II.12 That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, government should adopt them.	In process	Chapter II of this report deals extensively with the reporting of tangible capital assets, and contains advice and recommendations in this area.

Appendix K: Bibliography

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